PERRIGO CO
Form 10-Q
May 03, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: March 26, 2011

OR

o 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 (State or other jurisdiction of incorporation or organization)	38-2799573 (I.R.S. Employer Identification No.)
515 Eastern Avenue Allegan, Michigan (Address of principal executive offices)	49010 (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 T 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 T 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	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). £ YES T NO

As of April 29, 2011, the registrant had 92,726,110 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 26, 2010 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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Item 1. Financial Statements (Unaudited)

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PERRIGO COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)
(unaudited)

	Third Quarter		Year-to-Date	
	2011	2010 As Adjusted (Note 1)	2011	2010 As Adjusted (Note 1)
Net sales	$691,563	$537,632	$2,050,400	$1,648,390
Cost of sales	452,481	350,237	1,347,864	1,100,158
Gross profit	239,082	187,395	702,536	548,232
Operating expenses				
Distribution	8,525	7,919	25,722	21,474
Research and development	23,511	17,715	65,842	57,153
Selling and administration	84,133	65,135	244,053	188,817
Subtotal	116,169	90,769	335,617	267,444
Write-off of in-process research and development	—	—	—	14,000
Restructuring	—	7,474	—	7,474
Total	116,169	98,243	335,617	288,918
Operating income	122,913	89,152	366,919	259,314
Interest, net	10,915	5,927	31,718	17,869
Other income, net	(753)	(1,367)	(1,945)	(1,686)
Income from continuing operations before income taxes	112,751	84,592	337,146	243,131
Income tax expense	21,220	23,051	82,158	67,699
Income from continuing operations	91,531	61,541	254,988	175,432
Income (loss) from discontinued operations, net of tax	(2,446)	640	(1,361)	(577)
Net income	$89,085	$62,181	$253,627	$174,855
Earnings (loss) per share(1)				
Basic				
Continuing operations	$0.99	$0.67	$2.77	$1.92
Discontinued operations	(0.03)	0.01	(0.01)	(0.01)
Basic earnings per share	$0.96	$0.68	$2.75	$1.91
Diluted				
Continuing operations	$0.98	$0.66	$2.73	$1.89
Discontinued operations	(0.03)	0.01	(0.01)	(0.01)
Diluted earnings per share	$0.95	$0.67	$2.72	$1.88
Weighted average shares outstanding				
Basic	92,459	91,179	92,175	91,428
Diluted	93,549	92,589	93,371	92,819
Dividends declared per share	$0.0700	$0.0625	$0.2025	$0.1800

(1) The sum of individual per share amounts may not equal due to rounding.
See accompanying notes to condensed consolidated financial statements.

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PERRIGO COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

	March 26, 2011	June 26, 2010 As Adjusted (Note 1)	March 27, 2010 As Adjusted (Note 1)
Assets			
Current assets			
Cash and cash equivalents	$223,237	$109,765	$318,522
Restricted cash	—	400,000	—
Investment securities	—	559	562
Accounts receivable, net	464,190	359,809	331,530
Inventories	494,278	452,980	419,779
Current deferred income taxes	22,930	27,225	25,675
Income taxes refundable	2,103	14,439	4,980
Prepaid expenses and other current assets	50,112	30,549	35,029
Current assets of discontinued operations	2,797	7,375	8,440
Total current assets	1,259,647	1,402,701	1,144,517
Property and equipment	950,478	885,169	826,164
Less accumulated depreciation	(484,575)	(436,586)	(442,997)
	465,903	448,583	383,167
Restricted cash	—	—	400,000
Goodwill and other indefinite-lived intangible assets	640,107	618,042	289,968
Other intangible assets, net	576,436	587,000	218,739
Non-current deferred income taxes	13,786	—	—
Other non-current assets	81,612	52,677	52,290
	$3,037,491	$3,109,003	$2,488,681
Liabilities and Shareholders’ Equity			
Current liabilities			
Accounts payable	$286,795	$267,311	$243,702
Short-term debt	1,180	9,000	—
Payroll and related taxes	71,521	79,219	73,456
Accrued customer programs	91,704	59,898	53,778
Accrued liabilities	79,485	90,046	53,883
Accrued income taxes	17,351	11,665	17,702
Current portion of long-term debt	15,000	400,000	—
Current liabilities of discontinued operations	3,570	5,370	10,228
Total current liabilities	566,606	922,509	452,749
Non-current liabilities			
Long-term debt, less current portion	875,442	935,000	825,000
Non-current deferred income taxes	11,900	49,346	48,694
Other non-current liabilities	158,444	108,208	104,881
Total non-current liabilities	1,045,786	1,092,554	978,575
Shareholders’ equity			
Controlling interest shareholders’ equity:			
Preferred stock, without par value, 10,000 shares authorized	—	—	—
Common stock, without par value, 200,000 shares authorized	458,811	428,457	413,683
Accumulated other comprehensive income	109,080	43,200	64,547

Retained earnings	855,287	620,439	577,258
	1,423,178	1,092,096	1,055,488
Noncontrolling interest	1,921	1,844	1,869
Total shareholders' equity	1,425,099	1,093,940	1,057,357
	$3,037,491	$3,109,003	$2,488,681
Supplemental Disclosures of Balance Sheet Information Related to Continuing Operations			
Allowance for doubtful accounts	$7,618	$8,015	$10,760
Working capital	$693,814	$478,187	$693,556
Preferred stock, shares issued and outstanding	—	—	—
Common stock, shares issued and outstanding	92,682	91,694	91,356

See accompanying notes to condensed consolidated financial statements.

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PERRIGO COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Year-To-Date	
	2011	2010 As Adjusted (Note 1)
Cash Flows (For) From Operating Activities		
Net income	$253,627	$174,855
Adjustments to derive cash flows		
Write-off of in-process research and development	—	14,000
Depreciation and amortization	76,257	51,811
Restructuring	—	7,474
Share-based compensation	11,526	11,184
Loss (gain) on sale of business	2,151	(750)
Income tax benefit from exercise of stock options	1,621	(905)
Excess tax benefit of stock transactions	(16,256)	(5,730)
Deferred income taxes	(60,845)	(16,361)
Sub-total	268,081	235,578
Changes in operating assets and liabilities, net of asset and business acquisitions		
Accounts receivable	(104,197)	(13,039)
Inventories	(31,304)	(33,706)
Income taxes refundable	12,469	3,694
Accounts payable	15,521	(13,303)
Payroll and related taxes	(9,072)	24,521
Accrued customer programs	31,770	(1,005)
Accrued liabilities	(10,739)	(7,731)
Accrued income taxes	47,077	24,972
Other	9,428	439
Sub-total	(39,047)	(15,158)
Net cash from operating activities	229,034	220,420
Cash Flows (For) From Investing Activities		
Proceeds from sales of securities	560	—
(Return of) Proceeds from sale of business	(3,558)	35,980
Acquisitions of businesses, net of cash acquired	2,624	(58,885)
Acquired research and development	—	(14,000)

Acquisitions of assets	(10,000)	(10,262)
Additions to property and equipment	(46,542)	(34,545)
Net cash for investing activities	(56,916)	(81,712)
Cash Flows (For) From Financing Activities		
Repayments of short-term debt, net	(7,820)	—
Borrowings of long-term debt	150,442	—
Repayments of long-term debt	(195,000)	(67,771)
Deferred financing fees	(5,158)	(3,500)
Excess tax benefit of stock transactions	16,256	5,730
Issuance of common stock	12,476	14,593
Repurchase of common stock	(8,285)	(70,972)
Cash dividends	(18,779)	(16,566)
Net cash for financing activities	(55,868)	(138,486)
Effect of exchange rate changes on cash	(2,778)	658
Net increase in cash and cash equivalents	113,472	880
Cash and cash equivalents of continuing operations, beginning of period	109,765	317,638
Cash balance of discontinued operations, beginning of period	—	4
Cash and cash equivalents, end of period	223,237	318,522
Less cash balance of discontinued operations, end of period	—	—
Cash and cash equivalents of continuing operations, end of period	$223,237	$318,522
Supplemental Disclosures of Cash Flow Information		
Cash paid/received during the period for:		
Interest paid	$27,759	$30,765
Interest received	$2,594	$15,891
Income taxes paid	$83,494	$50,231
Income taxes refunded	$1,303	$1,159

See accompanying notes to condensed consolidated financial statements.

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PERRIGO COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 26, 2011
(in thousands, except per share amounts)

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CHANGE IN ACCOUNTING PRINCIPLES

The Company

Perrigo Company (the “Company”) is a leading global healthcare supplier that develops, manufactures and distributes over-the-counter (OTC) and generic prescription (Rx) pharmaceuticals, infant formulas, nutritional products and active pharmaceutical ingredients (API). The Company is the world’s largest store brand manufacturer of OTC pharmaceutical products and infant formulas. The Company’s primary markets and locations of manufacturing and logistics operations are the United States, Israel, Mexico, the United Kingdom and Australia.

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 U.S. 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.

Operating results for the nine months ended March 26, 2011 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 26, 2010.

Certain changes to prior periods' balance sheet amounts have been made in accordance with the accounting guidance for business combinations to reflect adjustments made during the measurement period. See Note 2 for additional information regarding these changes.

The Company has four reportable segments, aligned primarily by type of product: Consumer Healthcare, Nutritionals, Rx Pharmaceuticals and API, along with an Other category. On April 30, 2010, the Company acquired 100% of the shares of PBM Holdings, Inc. (PBM), the leading manufacturer and distributor of store brand infant formulas, pediatric nutritionals and baby foods sold by leading retailers in the mass, club, grocery and drug channels in the U.S., Canada, Mexico and China. Following the acquisition of PBM, the Company now participates in new nutritional product lines. As a result, in the first quarter of fiscal 2011, the Company realigned and expanded its operating segments to include a Nutritionals segment, representing infant formulas and other nutritional products. Accounting Standard Codification (ASC) 280-10-50 (ASC 280-10-50) defines an operating segment as a component of a public entity that earns revenue and incurs expenses, has discrete financial information available and is reviewed regularly by the chief decision maker for purposes of allocating resources and assessing performance. Each of the segments meets the requirements of an operating segment. The Consumer Healthcare, Nutritionals, Rx Pharmaceuticals and API operating segments are also considered to be reportable segments by management. 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. As a result of the change in segment reporting, all historical segment information has been adjusted to conform to the new presentation.

In March 2009, the Company committed to a plan to sell its Israel Consumer Products business. The financial results of this business have been classified as discontinued operations in the condensed consolidated financial statements for all periods presented. The sale was completed in the third quarter of fiscal 2010. After the finalization of post-closing working capital adjustments in the third quarter of fiscal 2011, the sale resulted in a pre-tax loss of $1,407. See Note 3 for additional information regarding discontinued operations. Unless otherwise noted, amounts and disclosures throughout the Notes to Condensed Consolidated Financial Statements relate to the Company's continuing operations.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and all majority owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation. Prior to June 27, 2010, the Company's consolidated results of operations and financial position included the financial results of its U.K., Mexico, Germany and Israel subsidiaries on a twelve-month period ending in May, resulting in a one-month reporting lag when compared to the remainder of

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the Company.

Starting June 27, 2010, the reporting year-end of these foreign operations was changed from May to June. The previously existing one-month reporting lag was eliminated as it was no longer required to achieve a timely consolidation due to the Company’s investments in technology, ERP systems and personnel to enhance its financial statement close process. The Company believes this change is preferable because the financial information of all operating units is now reported based on the same period-end, which improves overall financial reporting to investors by providing the most current information available. In accordance with ASC 850-10-50-2, “A Change in the Difference Between Parent and Subsidiary Fiscal Year-Ends,” the elimination of this previously existing reporting lag is considered a voluntary change in accounting principle in accordance with ASC 250-10-50 “Change in Accounting Principle.” Voluntary changes in accounting principles are to be reported through retrospective application of the new principle to all prior financial statement periods presented. Accordingly, the Company’s financial statements for periods prior to fiscal 2011 have been adjusted to reflect the period-specific effects of applying this accounting principle. This change resulted in a cumulative effect of an accounting change of $118, net of income tax effect, to retained earnings as of June 28, 2009. The impact of this change in accounting principle to eliminate the one-month lag for foreign subsidiaries is summarized below for the Company’s condensed consolidated statements of income for the three and nine months ended March 27, 2010, the condensed consolidated balance sheets as of June 26, 2010 and March 27, 2010 and the condensed consolidated statement of cash flows for the nine months ended March 27, 2010.

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PERRIGO COMPANY
NOTES TO CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended March 27, 2010		
	As Reported	Adjustments	After Voluntary Change in Accounting Principle
Net sales	$538,306	$(674)	$537,632
Cost of sales	352,440	(2,203)	350,237
Gross profit	185,866	1,529	187,395
Operating expenses			
Distribution	7,960	(41)	7,919
Research and development	17,467	248	17,715
Selling and administration	65,658	(523)	65,135
Subtotal	91,085	(316)	90,769
Restructuring	7,474	—	7,474
Total	98,559	(316)	98,243
Operating income	87,307	1,845	89,152
Interest, net	5,989	(62)	5,927
Other income, net	(1,327)	(40)	(1,367)
Income from continuing operations before income taxes	82,645	1,947	84,592
Income tax expense	22,507	544	23,051
Income from continuing operations	60,138	1,403	61,541
Income from discontinued operations, net of tax	768	(128)	640
Net income	$60,906	$1,275	$62,181
Earnings per share(1)			
Basic			
Continuing operations	$0.66	$0.02	$0.67
Discontinued operations	0.01	(0.00)	0.01
Basic earnings per share	$0.67	$0.01	$0.68
Diluted			
Continuing operations	$0.65	$0.02	$0.66
Discontinued operations	0.01	(0.00)	0.01
Diluted earnings per share	$0.66	$0.01	$0.67

(1) The sum of individual per share amounts may not equal due to rounding.

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PERRIGO COMPANY
NOTES TO CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)
(unaudited)

	Nine Months Ended March 27, 2010		
	As Reported	Adjustments	After Voluntary Change in Accounting Principle
Net sales	$1,649,475	$(1,085)	$1,648,390
Cost of sales	1,102,670	(2,512)	1,100,158
Gross profit	546,805	1,427	548,232
Operating expenses			
Distribution	21,493	(19)	21,474
Research and development	56,699	454	57,153
Selling and administration	188,795	22	188,817
Subtotal	266,987	457	267,444
Write-off of in-process research and development	14,000	—	14,000
Restructuring	7,474	—	7,474
Total	288,461	457	288,918
Operating income	258,344	970	259,314
Interest, net	18,203	(334)	17,869
Other income, net	(1,557)	(129)	(1,686)
Income from continuing operations before income taxes	241,698	1,433	243,131
Income tax expense	67,299	400	67,699
Income from continuing operations	174,399	1,033	175,432
Loss from discontinued operations, net of tax	(1,301)	724	(577)
Net income	$173,098	$1,757	$174,855
Earnings (loss) per share[1]			
Basic			
Continuing operations	$1.91	$0.01	$1.92
Discontinued operations	(0.01)	0.01	(0.01)
Basic earnings per share	$1.89	$0.02	$1.91
Diluted			
Continuing operations	$1.88	$0.01	$1.89
Discontinued operations	(0.01)	0.01	(0.01)
Diluted earnings per share	$1.86	$0.02	$1.88

(1) The sum of individual per share amounts may not equal due to rounding.

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PERRIGO COMPANY
NOTES TO CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

June 26, 2010	As Reported	Adjustments	After Voluntary Change in Accounting Principle
Assets			
Current assets			
Cash and cash equivalents	$97,568	$12,197	$109,765
Restricted cash	400,000	—	400,000
Investment securities	557	2	559
Accounts receivable, net	358,500	1,309	359,809
Inventories	448,871	4,109	452,980
Current deferred income taxes	26,648	577	27,225
Income taxes refundable	13,864	575	14,439
Prepaid expenses and other current assets	28,071	2,478	30,549
Current assets of discontinued operations	7,214	161	7,375
Total current assets	1,381,293	21,408	1,402,701
Property and equipment	885,953	(784)	885,169
Less accumulated depreciation	(437,037)	451	(436,586)
	448,916	(333)	448,583
Goodwill and other indefinite-lived intangible assets	622,745	(4,703)	618,042
Other intangible assets, net	587,094	(94)	587,000
Other non-current assets	52,688	(11)	52,677
	$3,092,736	$16,267	$3,109,003
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable	$258,493	$8,818	$267,311
Short-term debt	9,000	—	9,000
Payroll and related taxes	82,088	(2,869)	79,219
Accrued customer programs	59,898	—	59,898
Accrued liabilities	88,750	1,296	90,046
Accrued income taxes	3,048	8,617	11,665
Current portion of long-term debt	400,000	—	400,000
Current liabilities of discontinued operations	5,428	(58)	5,370
Total current liabilities	906,705	15,804	922,509
Non-current liabilities			
Long-term debt, less current portion	935,000	—	935,000
Non-current deferred income taxes	55,333	(5,987)	49,346
Other non-current liabilities	107,043	1,165	108,208
Total non-current liabilities	1,097,376	(4,822)	1,092,554
Shareholders' equity			
Controlling interest shareholders' equity:			
Preferred stock, without par value, 10,000 shares authorized	—	—	—
Common stock, without par value, 200,000 shares authorized	428,457	—	428,457
Accumulated other comprehensive income	39,048	4,152	43,200

Retained earnings	619,303	1,136	620,439
	1,086,808	5,288	1,092,096
Noncontrolling interest	1,847	(3)	1,844
Total shareholders' equity	1,088,655	5,285	1,093,940
	$3,092,736	$16,267	$3,109,003

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PERRIGO COMPANY
NOTES TO CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

March 27, 2010	As Reported	Adjustments	After Voluntary Change in Accounting Principle
Assets			
Current assets			
Cash and cash equivalents	$314,924	$3,598	$ 318,522
Investment securities	562	—	562
Accounts receivable, net	322,329	9,201	331,530
Inventories	417,580	2,199	419,779
Current deferred income taxes	25,670	5	25,675
Income taxes refundable	5,298	(318)	4,980
Prepaid expenses and other current assets	33,218	1,811	35,029
Current assets of discontinued operations	9,507	(1,067)	8,440
Total current assets	1,129,088	15,429	1,144,517
Property and equipment	821,564	4,600	826,164
Less accumulated depreciation	(441,283)	(1,714)	(442,997)
	380,281	2,886	383,167
Restricted cash	400,000	—	400,000
Goodwill and other indefinite-lived intangible assets	292,030	(2,062)	289,968
Other intangible assets, net	219,288	(549)	218,739
Other non-current assets	52,633	(343)	52,290
	$2,473,320	$15,361	$ 2,488,681
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable	$235,085	$8,617	$ 243,702
Payroll and related taxes	70,588	2,868	73,456
Accrued customer programs	53,788	(10)	53,778
Accrued liabilities	54,520	(637)	53,883
Accrued income taxes	18,588	(886)	17,702
Current liabilities of discontinued operations	11,030	(802)	10,228
Total current liabilities	443,599	9,150	452,749
Non-current liabilities			
Long-term debt, less current portion	825,000	—	825,000
Non-current deferred income taxes	48,721	(27)	48,694
Other non-current liabilities	104,118	763	104,881
Total non-current liabilities	977,839	736	978,575
Shareholders' equity			
Controlling interest shareholders' equity:			
Preferred stock, without par value, 10,000 shares authorized	—	—	—
Common stock, without par value, 200,000 shares authorized	413,683	—	413,683
Accumulated other comprehensive income	60,717	3,830	64,547
Retained earnings	575,619	1,639	577,258
	1,050,019	5,469	1,055,488

Noncontrolling interest	1,863	6	1,869
Total shareholders’ equity	1,051,882	5,475	1,057,357
	$2,473,320	$15,361	$ 2,488,681

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PERRIGO COMPANY
NOTES TO CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended March 27, 2010		
	As Reported	Adjustments	After Voluntary Change in Accounting Principle
Cash Flows (For) From Operating Activities			
Net income	$173,098	$1,757	$174,855
Adjustments to derive cash flows			
Write-off of in-process research and development	14,000	—	14,000
Depreciation and amortization	53,673	(1,862)	51,811
Restructuring	7,474	—	7,474
Share-based compensation	11,184	—	11,184
Gain on sale of business	(750)	—	(750)
Income tax benefit from exercise of stock options	(905)	—	(905)
Excess tax benefit of stock transactions	(5,730)	—	(5,730)
Deferred income taxes	(18,108)	1,747	(16,361)
Sub-total	233,936	1,642	235,578
Changes in operating assets and liabilities, net of asset and business acquisitions			
Accounts receivable	10,172	(23,211)	(13,039)
Inventories	(33,660)	(46)	(33,706)
Income taxes refundable	3,628	66	3,694
Accounts payable	(32,124)	18,821	(13,303)
Payroll and related taxes	18,760	5,761	24,521
Accrued customer programs	(1,005)	—	(1,005)
Accrued liabilities	(8,246)	515	(7,731)
Accrued income taxes	28,848	(3,876)	24,972
Other	(4,108)	4,547	439
Sub-total	(17,735)	2,577	(15,158)
Net cash from operating activities	216,201	4,219	220,420
Cash Flows (For) From Investing Activities			
Proceeds from sale of business	35,980	—	35,980
Acquired research and development	(14,000)	—	(14,000)
Acquisitions of businesses, net of cash acquired	(58,885)	—	(58,885)
Acquisitions of assets	(10,262)	—	(10,262)
Additions to property and equipment	(32,233)	(2,312)	(34,545)
Net cash for investing activities	(79,400)	(2,312)	(81,712)
Cash Flows (For) From Financing Activities			
Repayments of long-term debt	(67,771)	—	(67,771)
Deferred financing fees	(3,500)	—	(3,500)
Excess tax benefit of stock transactions	5,730	—	5,730
Issuance of common stock	14,593	—	14,593
Repurchase of common stock	(70,972)	—	(70,972)
Cash dividends	(16,566)	—	(16,566)

Net cash for financing activities	(138,486)	—	(138,486)
Effect of exchange rate changes on cash	472	186	658
Net increase (decrease) in cash and cash equivalents	(1,213)	2,093	880
Cash and cash equivalents of continuing operations, beginning of period	316,133	1,505	317,638
Cash balance of discontinued operations, beginning of period	4	—	4
Cash and cash equivalents, end of period	314,924	3,598	318,522
Less cash balance of discontinued operations, end of period	—	—	—
Cash and cash equivalents of continuing operations, end of period	$314,924	$3,598	$318,522

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Recently Issued Accounting Standards

In December 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-29, “Business Combinations (ASC Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations.” The amendments in this ASU affect any public entity as defined by ASC Topic 805 that enters into business combinations that are material on an individual or aggregate basis. The amendments in this ASU specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as if the business combinations that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. This guidance will be effective for the Company in the first quarter of fiscal 2012. Accordingly, the effects of the Company’s adoption of this guidance will depend upon the extent and magnitude of business combinations the Company enters into after June 25, 2011.

In December 2010, the FASB issued ASU 2010-28, “Intangibles - Goodwill and Other (ASC Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts.” The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. This guidance will be effective for the Company in the first quarter of fiscal 2012. The Company does not expect this ASU to have a material impact on its consolidated financial statements.

In December 2010, the FASB issued ASU 2010-27, “Other Expenses (ASC Topic 720): Fees Paid to the Federal Government by Pharmaceutical Manufacturers.” This ASU provides guidance on how pharmaceutical manufacturers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act (the Acts). The Acts impose an annual fee on the pharmaceutical manufacturing industry for each calendar year beginning on or after January 1, 2011. An entity’s portion of the annual fee is payable no later than September 30 of the applicable calendar year and is not tax deductible. A portion of the annual fee will be allocated to individual entities on the basis of the amount of their branded prescription drug sales for the preceding year as a percentage of the industry’s branded prescription drug sales for the same period. An entity’s portion of the annual fee becomes payable to the U.S. Treasury once a pharmaceutical manufacturing entity has a gross receipt from branded prescription drug sales to any specified government program or in accordance with coverage under any government program for each calendar year beginning on or after January 1, 2011. The amendments in this ASU specify that the liability for the fee should be estimated and recorded in full upon the first qualifying sale with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. The amendments in this ASU are effective for calendar years beginning after December 31, 2010, when the fee initially becomes effective. Given the small number of branded drugs in the Company’s portfolio, the Company does not expect this ASU to have a material impact on its consolidated financial statements.

In April 2010, the FASB issued ASU 2010-17, “Revenue Recognition - Milestone Method (ASC Topic 605): Milestone Method of Revenue Recognition.” The amendments in this ASU provide guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. The amendments in the ASU are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption was permitted. Vendors may also elect to adopt the amendments in the ASU retrospectively for all prior periods. The guidance in this ASU was effective for the Company in the first quarter of fiscal 2011. This ASU did not have any impact on the Company’s condensed consolidated financial statements upon adoption.

In December 2009, the FASB issued ASU 2009-16, “Transfers and Servicing (ASC Topic 860) - Accounting for Transfers of Financial Assets” (ASU 2009-16). ASU 2009-16 revises previous authoritative guidance related to accounting for transfers of financial assets and requires more disclosures about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. Among other things, ASU 2009-16 eliminates

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the concept of a "qualifying special-purpose entity", changes the requirements for derecognizing financial assets and enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity's continuing involvement in transferred financial assets. ASU 2009-16 is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. Early adoption was not permitted. This guidance was effective for the Company in the first quarter of fiscal 2011 and did not have any impact on the Company's condensed consolidated results of operations or its financial position upon adoption.

In October 2009, the FASB issued ASU 2009-13, "Revenue Recognition (ASC Topic 605)–Multiple-Deliverable Revenue Arrangements" (ASU 2009-13). ASU 2009-13 amends the criteria in ASC Subtopic 605-25, "Revenue Recognition–Multiple-Element Arrangements," for separating consideration in multiple-deliverable arrangements. This ASU addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. ASU 2009-13 modifies the requirements for determining whether a deliverable can be treated as a separate unit of accounting by removing the criteria that verifiable and objective evidence of fair value exists for the undelivered elements. This guidance eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: a) vendor-specific objective evidence; b) third-party evidence; or c) estimates. In addition, this guidance significantly expands required disclosures related to a vendor's multiple-deliverable revenue arrangements. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company adopted this ASU effective June 27, 2010. Accordingly, the effects of the Company's adoption of this guidance will depend upon the extent and magnitude of revenue arrangements the Company enters into or materially modifies after June 26, 2010.

NOTE 2 – ACQUISITIONS

Acquired Research and Development

On September 21, 2009, the Company acquired the Abbreviated New Drug Application (ANDA) for clindamycin phosphate (1%) and benzoyl peroxide (5%) gel from KV Pharmaceutical for $14,000 in cash and a $2,000 milestone payment to be made upon the successful completion of a contingency. Successful completion of the contingency is expected by early fiscal 2012. This product is the equivalent of Duac® gel which is indicated for the topical treatment of inflammatory acne vulgaris. Duac® gel is marketed by Stiefel Laboratories' (Stiefel), a subsidiary of GlaxoSmithKline. Excluding the milestone payment, the full amount of the purchase price, which related to acquired research and development, was capitalized and immediately written off as in-process research and development in the first quarter of fiscal 2010 within the Company's Rx Pharmaceuticals segment, because the ANDA had not received final U.S. Food and Drug Administration (FDA) approval at the date of acquisition.

Asset Acquisitions

On February 17, 2011, the Company announced that it entered into an exclusive agreement with AgaMatrix, Inc. (AgaMatrix) to sell and distribute blood glucose monitors and test strips in the U.S. store brand channel. Under the terms of the agreement, the Company paid $5,000 to AgaMatrix for a distribution and license agreement, which has been accounted for as an intangible asset beginning in the third quarter of fiscal 2011 and is being amortized on an accelerated basis over its eight-year useful life.

On July 1, 2009, the Company's Israel Pharmaceutical and Diagnostics Products operating segment entered into a distribution agreement with a major global diagnostic company. In conjunction with this distribution agreement, the Company acquired certain pharmaceutical diagnostic assets from a local pharmaceutical company for $4,610. The acquisition enhanced the Company's product portfolio and strengthened its position as the leader in the Israeli pharmaceutical diagnostic market. The assets acquired in this transaction consisted primarily of intangible assets associated with customer supply contracts, machinery and equipment, and inventory. The assets acquired and the related operating results from the acquisition date were included in the Other category in the Company's condensed consolidated financial statements beginning in the first quarter of fiscal 2010.

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The purchase price of $4,610 was allocated as follows:

Inventory	$1,346
Property and equipment	1,262
Intangible assets – Customer contracts	2,002
Total assets acquired	$4,610

Management assigned fair value to the identifiable intangible assets by estimating the discounted forecasted cash flows related to the customer contracts. The average estimated useful lives of the contracts are six years and are amortized on a straight-line basis. Assumptions used in the valuation included a discount rate of 11%.

At the time of the acquisition, a step-up in the value of inventory of $606 was recorded in the allocation of the purchase price based on valuation estimates, of which $320 was charged to cost of sales in the first quarter of fiscal 2010 as the inventory was sold. The remainder of the step-up in value was charged to cost of sales in the second quarter of fiscal 2010 as the inventory was sold.

On November 2, 2009, in connection with this same distribution agreement, the Company's Israel Pharmaceutical and Diagnostic Products operating segment acquired certain pharmaceutical diagnostic assets from another local pharmaceutical company for $5,152. This acquisition enhanced the Company's product portfolio and strengthened its position as the leader in the Israeli pharmaceutical diagnostic market. The assets acquired in this transaction consisted primarily of intangible assets associated with customer supply contracts, machinery and equipment, and inventory. The assets and the related operating results from the acquisition date were included in the Other category in the Company's condensed consolidated financial statements beginning in the second quarter of fiscal 2010.

The purchase price of $5,152 was allocated as follows:

Inventory	$869
Property and equipment	600
Intangible assets – Customer contracts	3,683
Total assets acquired	$5,152

Management assigned fair value to the identifiable intangible assets by estimating the discounted forecasted cash flows related to the customer contracts. The average estimated useful lives of the contracts are six years and are amortized on a straight-line basis. Assumptions used in the valuation included a discount rate of 11%.

At the time of the acquisition, a step-up in the value of inventory of $417 was recorded in the allocation of the purchase price based on valuation estimates, of which $325 was charged to cost of sales in the second quarter of fiscal 2010 as the inventory was sold. The remainder of the step-up in value was charged to cost of sales in the third quarter of fiscal 2010 as the inventory was sold.

Pending Business Acquisition

Paddock Laboratories, Inc. – On January 20, 2011, the Company announced that it had signed a definitive agreement to acquire substantially all of the assets of privately-held Paddock Laboratories, Inc. (Paddock) for approximately $540,000 in cash. As of the end of the third quarter of fiscal 2011, the Company incurred $2,010 of acquisition costs, of which $1,315 and $695 were expensed in operations in the second and third quarter of fiscal 2011, respectively. Headquartered in Minneapolis, Minnesota, Paddock is a manufacturer and marketer of generic Rx pharmaceutical products. The acquisition, which is expected to be completed in the Company's fourth quarter of fiscal 2011, will expand the Company's generic Rx product offering, pipeline and scale.

Business Acquisitions

PBM Holdings, Inc. – On April 30, 2010, the Company acquired 100% of the shares of PBM. The ultimate cash paid for the shares was $839,369, which included cash acquired as of the transaction date of $30,591, upon considering final working capital adjustments. As of the end of the fourth quarter of fiscal 2010, the Company incurred approximately $11,100 of acquisitions costs, of which approximately $3,200 and $7,900 were expensed in operations in the third and fourth quarter of fiscal 2010, respectively. Headquartered in Gordonsville, Virginia, PBM was the leading manufacturer and distributor of store brand infant formulas, pediatric nutritionals and baby foods sold by leading retailers in the mass, club, grocery and drug channels in the U.S., Canada, Mexico and China. 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 PBM were included in the Nutritionals segment of the Company's consolidated results of operations beginning May 1, 2010.

During the measurement period, which ended April 29, 2011, the Company finalized the post-closing working capital adjustment and certain pre-acquisition tax-related contingencies, which resulted in recording net adjustments of $1,998. The balance sheet at June 26, 2010 has been retrospectively adjusted to reflect these adjustments as required by the business combinations accounting guidance. The following table summarizes the final fair values of the assets acquired and the liabilities assumed related to the PBM acquisition:

	Initial Valuation	Measurement Period Adjustments	Final Valuation
Cash	$30,591	$—	$30,591
Accounts receivable	20,891	(1,998)	18,893
Inventory	38,419	—	38,419
Property and equipment	62,084	—	62,084
Other assets	1,663	2,146	3,809
Deferred income tax assets	2,153	1,090	3,243
Goodwill	329,578	721	330,299
Intangible assets	382,500	—	382,500
Total assets acquired	867,879	1,959	869,838
Accounts payable	10,046	—	10,046
Other current liabilities	125	2,540	2,665
Deferred income tax liabilities	185	—	185
Accrued expenses	16,156	1,417	17,573
Total liabilities assumed	26,512	3,957	30,469
Net assets acquired	$841,367	$(1,998)	$839,369

The excess of the purchase price over the fair value of net assets acquired, amounting to $330,299, was recorded as goodwill in the condensed consolidated balance sheet and was assigned to the Company's Nutritionals segment. Goodwill is not amortized for financial reporting purposes, but is amortized for tax purposes. See Note 7 regarding the timing of the Company's annual goodwill impairment testing.

Intangible assets acquired in the acquisition were valued as follows:

Product formulations	$107,000
Developed product technology	4,200
Trade names and trademarks	1,900
Distribution agreements	18,000

Customer relationships	250,000
Non-compete agreement	1,400
Total intangible assets acquired	$382,500

Management assigned fair values to the identifiable intangible assets through a combination of the relief from royalty method, the discounted cash flow method and the lost income method. Developed product technology and product formulations are based on 15 and 10-year useful lives, respectively, and amortized on a straight-line basis. Trade names and trademarks are considered to have an indefinite life. Distribution agreements and customer relationships are based on a 20-year useful life and amortized on an accelerated basis. The non-compete agreement is based on a five-year life and amortized on a straight-line basis.

At the time of the acquisition, a step-up in the value of inventory of $9,402 was recorded in the allocation of the purchase price based on valuation estimates, all of which was charged to cost of sales in the fourth quarter of fiscal 2010 as the inventory was sold. In addition, fixed assets were written up by $5,002 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 useful lives of the assets.

Orion Laboratories Pty Ltd. – On March 8, 2010, the Company acquired 100% of the outstanding shares of privately-held Orion Laboratories Pty Ltd. (Orion). The ultimate cash paid for the shares was $48,012, upon considering final working capital adjustments. The Company incurred approximately $600 of acquisition costs, all of which were expensed in operations in the third quarter of fiscal 2010. Located near Perth, Western Australia, Orion was a leading supplier of OTC store brand pharmaceutical products in Australia and New Zealand. In addition, Orion manufactured and distributed pharmaceutical products supplied to hospitals in Australia. The acquisition of Orion expanded the Company's global presence and product portfolio into Australia and New Zealand. 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 Orion were included in the Consumer Healthcare segment of the Company's consolidated results of operations beginning March 8, 2010.

During the measurement period, which ended March 7, 2011, the Company finalized the post-closing working capital adjustment and the book/tax basis adjustments, which resulted in recording net adjustments of $1,485. The balance sheets at March 27, 2010 and June 26, 2010 have been retrospectively adjusted to reflect these adjustments as required by the business combinations accounting guidance. The following table summarizes the final fair values of the assets acquired and the liabilities assumed related to the Orion acquisition:

	Initial Valuation	Measurement Period Adjustments	Final Valuation
Cash	$671	$—	$671
Accounts receivable	4,631	(1,485)	3,146
Inventory	4,484	—	4,484
Property and equipment	11,490	—	11,490
Other assets	110	—	110
Deferred income tax assets	322	1,602	1,924
Goodwill	16,566	(104)	16,462
Intangible assets	15,600	—	15,600
Total assets acquired	53,874	13	53,887
Accounts payable	2,247	—	2,247
Other current liabilities	954	—	954

Deferred income tax liabilities	3	1,488	1,491
Taxes payable	1,173	10	1,183
Total liabilities assumed	4,377	1,498	5,875
Net assets acquired	$49,497	$(1,485)	$48,012

The excess of the purchase price over the fair value of net assets acquired, amounting to $16,462, 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 or tax purposes. See Note 7 regarding the timing of the Company's annual goodwill impairment testing.

Intangible assets acquired in the acquisition were valued as follows:

Product formulations	$1,182
Customer relationships	12,000
Non-compete agreements	2,418
Total intangible assets acquired	$15,600

Management assigned fair values to the identifiable intangible assets through a combination of the relief from royalty method, the discounted cash flow method and the lost income method. Product formulations are based on a 10-year useful life and amortized on a straight-line basis. Customer relationships are based on 15 or 10-year useful lives based on the type of relationship and are amortized on an accelerated basis consistent with projected revenues over the lives of the relationships. There are three non-compete agreements, each based on a five-year life and amortized on a straight-line basis.

At the time of the acquisition, a step-up in the value of inventory of $495 was recorded in the allocation of the purchase price based on valuation estimates, all of which was charged to cost of sales in the fourth quarter of fiscal 2010 as the inventory was sold. In addition, fixed assets were written up by $1,132 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 useful lives of the assets.

Vedants Drug & Fine Chemicals Private Ltd. – To further improve the long-term cost position of its API business, on August 6, 2009, the Company acquired an 85% stake in Vedants Drug & Fine Chemicals Private Limited (Vedants), an API manufacturing facility in India, for $11,500 in cash. The facility, located approximately 30 miles outside of Mumbai, is currently under construction and will manufacture the Company's current and future high-volume API products, as well as expand the Company's vertical integration of Rx and future candidate Rx-to-OTC switch products. Manufacturing of API at this facility is expected to begin in the second half of fiscal 2012 and will include certain API products currently manufactured in Israel and that had been manufactured in Germany. The acquisition was accounted for using the acquisition method, and the related assets acquired and liabilities assumed were recorded at fair value. The operating results for Vedants were included in the API segment of the Company's condensed consolidated results of operations beginning August 6, 2009. Operations related to the noncontrolling interest are currently immaterial.

The purchase price of $11,500 was allocated as follows:

Cash	$1,441
Accounts receivable	168
Inventory	2
Property and equipment	8,436
Goodwill	4,183
Total assets acquired	14,230

Accounts payable	171
Other liabilities	1,289
Noncontrolling interest	1,270
Total liabilities and equity assumed	2,730
Net assets acquired	$11,500

The excess of the purchase price over the fair value of net assets acquired, amounting to $4,183, was recorded as goodwill in the condensed consolidated balance sheet and was assigned to the Company's API segment. Goodwill is not amortized for financial reporting or tax purposes. See Note 7 regarding the timing of the Company's annual goodwill impairment testing.

NOTE 3 – DISCONTINUED OPERATIONS

In March 2009, the Company committed to a plan to sell its Israel Consumer Products business. This business primarily sold consumer products to the Israeli market, including cosmetics, toiletries and detergents, and was previously reported as part of the Company's Other category. Based on management's strategic review of its portfolio of businesses, the Company decided to sell the Israel Consumer Products business to a third party. In the third quarter of fiscal 2009, the Israel Consumer Products business had met the criteria set forth in ASC Subtopic 360-10 to be accounted for as discontinued operations.

On November 2, 2009, the Company announced that it had signed a definitive agreement to sell the Israel Consumer Products business to Emilia Group. On February 26, 2010, the sale to Emilia Group was completed for approximately $47,000, of which approximately $11,000, subject to foreign currency fluctuations between the Israeli shekel and the U.S. dollar, was contingent upon satisfaction of contingency factors specified in the agreement. The sale was completed in the third quarter of fiscal 2010 resulting in a preliminary pre-tax gain on the sale of $750, excluding the contingent consideration. The sales price was subject to post-closing working capital adjustments as defined by the sale agreement. During the third quarter of fiscal 2011, as part of an arbitration ruling, the Company made a $3,558 payment to Emilia Group settling the final post-closing working capital adjustment. Of this amount, $2,151 was charged to earnings and included in discontinued operations in the third quarter of fiscal 2011. Including this charge, the pre-tax loss on the sale of the Israel Consumer Products business was $1,407. Under the terms of the sale agreement, the Company provided distribution and support services for the importation of private label cosmetics from this business into the U.S. market for 12 months after the close of the transaction. These services were fully transferred to Emilia Group during the third quarter of fiscal 2011.

The Company has reflected the results of this business as discontinued operations in the condensed consolidated statements of income for all periods presented. The assets and liabilities of this business are reflected as assets and liabilities of discontinued operations in the condensed consolidated balance sheets for all periods presented. The cash flows related to the support and distribution services that the Company provided were immaterial and limited in duration, and therefore, the Israel Consumer Products business was classified as discontinued operations.

Results of discontinued operations were as follows:

	Third Quarter		Year-to-Date	
	2011	2010	2011	2010
Net sales	$6,761	$18,979	$17,499	$63,340
(Loss) gain on sale	$(2,151)	$750	$(2,151)	$750
Income (loss) before income taxes	$(1,738)	$789	$91	$136
Income tax expense	(708)	(149)	(1,452)	(713)
Income (loss) from discontinued operations, net of tax	$(2,446)	$640	$(1,361)	$(577)

The assets and liabilities classified as discontinued operations as of March 26, 2011, June 26, 2010 and March 27, 2010 were as follows:

	March 26, 2011	June 26, 2010	March 27, 2010
Accounts receivable, net	$2,797	$1,700	$3,290
Inventories	—	5,482	4,892
Prepaid expenses and other current assets	—	193	258
Current assets of discontinued operations	$2,797	$7,375	$8,440
Accounts payable	$3,570	$3,482	$7,870
Accrued payroll and other accrued liabilities	—	976	1,421
Deferred income taxes	—	912	937
Current liabilities of discontinued operations	$3,570	$5,370	$10,228

As of March 26, 2011, the remaining assets and liabilities recorded in discontinued operations related to distribution and support services that ceased by the end of the third quarter of fiscal 2011, as specified in the sale agreement.

NOTE 4 – EARNINGS PER SHARE

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

	Third Quarter		Year-to-Date	
	2011	2010	2011	2010
Numerator:				
Income from continuing operations	$91,531	$61,541	$254,988	$175,432
Income (loss) from discontinued operations, net of tax	(2,446)	640	(1,361)	(577)
Net income used for both basic and diluted EPS	$89,085	$62,181	$253,627	$174,855
Denominator:				
Weighted average shares outstanding for basic EPS	92,459	91,179	92,175	91,428
Dilutive effect of share-based awards	1,090	1,410	1,196	1,391
Weighted average shares outstanding for diluted EPS	93,549	92,589	93,371	92,819

There were no share-based awards outstanding that were anti-dilutive for the third quarter of fiscal 2011. Share-based awards outstanding that were anti-dilutive were 31 for the third quarter of fiscal 2010. Year-to-date share-based awards outstanding that were anti-dilutive were 138 and 32 for fiscal 2011 and 2010, respectively. These share-based awards were excluded from the diluted EPS calculation.

NOTE 5 – FINANCIAL INSTRUMENTS

ASC Topic 820, “Fair Value Measurements and Disclosures” (ASC 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 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.

The following tables summarize the valuation of the Company’s financial instruments by the above pricing categories as of March 26, 2011, June 26, 2010 and March 27, 2010:

	Fair Value Measurements as of March 26, 2011 Using:			
	Total as of March 26, 2011	Quoted Prices In Active Markets (Level 1)	Prices With Other Observable Inputs (Level 2)	Prices With Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$151,941	$ 151,941	$—	$—
Investment securities	5,435	—	—	5,435
Funds associated with Israeli post employment benefits	16,896	—	16,896	—
Foreign currency forward contracts, net	3,235	—	3,235	—
Interest rate swap agreements	2,092	—	2,092	—
Total	$179,599	$ 151,941	$22,223	$ 5,435

	Fair Value Measurements as of June 26, 2010 Using:			
	Total as of June 26, 2010	Quoted Prices In Active Markets (Level 1)	Prices With Other Observable Inputs (Level 2)	Prices With Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$67,887	$ 67,887	$—	$—
Investment securities	4,950	—	—	4,950
Funds associated with Israeli post employment benefits	15,024	—	15,024	—
Total	$87,861	$ 67,887	$15,024	$ 4,950
Liabilities:				
Foreign currency forward contracts, net	$4,525	$—	$4,525	$—
Total	$4,525	$—	$4,525	$—

	Fair Value Measurements as of March 27, 2010 Using:			
	Total as of March 27, 2010	Quoted Prices In Active Markets (Level 1)	Prices With Other Observable Inputs (Level 2)	Prices With Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$152,282	$ 152,282	$—	$—
Investment securities	5,523	1	—	5,522
Treasury lock agreements	2,700	—	2,700	—
Funds associated with Israeli post employment benefits	15,574	—	15,574	—
Total	$176,079	$ 152,283	$18,274	$ 5,522
Liabilities:				
Foreign currency forward contracts, net	$267	$—	$267	$—
Total	$267	$—	$267	$—

The carrying amounts of the Company’s financial instruments, consisting of cash and cash equivalents, investment securities, accounts receivable, accounts payable and variable rate long-term debt, approximate their fair value. As of March 26, 2011, the carrying value and fair value of the Company’s fixed rate long-term debt were $615,000 and $628,050, respectively. As of June 26, 2010, the carrying value and fair value of the Company’s fixed rate long-term debt were $615,000 and $644,016, respectively. As a result of the prepayment of the letter of undertaking on July 19, 2010, as discussed in Note 8, the fair values of both the letter of undertaking and the restricted cash deposit approximated their carrying values as of June 26, 2010. As of March 27, 2010, the carrying value and fair value of the

Company's fixed rate long-term debt were $600,000 and $614,338, respectively. The carrying value and fair value of the corresponding restricted cash deposit were $400,000 and $411,876, respectively, as of March 27, 2010. 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 and nine months ended March 26, 2011. 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 March 26, 2011, the Company had $16,896 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 7 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 there are some recent indications that a market is starting 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 reclassified the securities from current assets to 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 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. During the second quarter of fiscal 2011, the Company received an updated estimate for the current fair value of these securities and based on this estimation and other factors, the Company recorded an unrealized gain of $1,042, net of tax, in other comprehensive income in the second quarter of fiscal 2011. At March 26, 2011, June 26, 2010 and March 27, 2010, these securities were considered as available-for-sale and were recorded at a fair value of $5,435, $4,393 and $4,961, respectively. Although the Company continues 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 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 March 26, 2011. The gross realized gains and losses on the sale of ARS are determined using the specific identification method.
In the second quarter of fiscal 2011, the Company sold its collateralized debt obligations backed primarily by U.S. Treasury obligations for proceeds of $560. As of December 25, 2010, the Company no longer held any collateralized debt obligations.

The following table presents a rollforward of the assets measured at fair value using unobservable inputs (Level 3) at March 26, 2011:

	Investment Securities (Level 3)
Assets:	
Balance as of June 26, 2010	$4,950
Transfers into Level 3	—
Sale of collateralized debt obligations	(560)
Unrealized gain on ARS	1,042
Foreign currency translation	3

Balance as of March 26, 2011	$5,435

NOTE 6 – INVENTORIES

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

	March 26, 2011	June 26, 2010	March 27, 2010
Finished goods	$226,770	$213,068	$185,631
Work in process	127,868	116,618	120,213
Raw materials	139,640	123,294	113,935
Total inventories	$494,278	$452,980	$419,779

NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS

In the first nine months of fiscal 2011, 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 26, 2010	$118,987	$331,744	$ 72,725	$88,011	$611,467
Currency translation adjustment	8,250	—	6,241	7,281	21,772
Balance as of March 26, 2011	$127,237	$331,744	$ 78,966	$95,292	$633,239

During fiscal 2011, goodwill related to the acquisitions of PBM and Orion increased $721 and decreased $104, respectively, for net adjustments made during the measurement period to the fair values of the assets acquired and liabilities assumed. In the table above, the retrospective adjustments for PBM and Orion are reflected in the goodwill balances of the Nutritionals and Consumer Healthcare segments, respectively, at June 26, 2010, in accordance with the accounting guidance for business combinations.

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

	March 26, 2011		June 26, 2010		March 27, 2010	
	Gross	Accumulated Amortization	Gross	Accumulated Amortization	Gross	Accumulated Amortization
Amortizable intangibles:						
Developed product technology/formulation and product rights	$323,504	$ 92,540	$311,319	$ 69,128	$204,048	$ 64,744
Distribution and license agreements	51,794	18,591	41,123	16,048	23,348	15,858
Customer relationships	331,501	28,077	326,404	15,414	76,714	12,679
Trademarks	5,223	728	4,691	716	4,840	719
Non-compete agreements	6,488	2,138	5,895	1,126	4,579	790
Total	718,510	142,074	689,432	102,432	313,529	94,790
Non-amortizable intangibles:						
Trade names and trademarks	6,868	—	6,575	—	4,640	—
Total intangibles	$725,378	$ 142,074	$696,007	$ 102,432	$318,169	$ 94,790

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 $34,365 and $16,434 for year-to-date fiscal 2011 and 2010, respectively, for intangible assets subject to amortization. The increase in amortization expense in the first nine months of fiscal 2011 was due primarily to the incremental amortization expense incurred on the intangible assets acquired as part of the PBM acquisition.

Estimated future amortization expense includes the additional amortization related to recently acquired intangible assets subject to amortization. No estimate of future amortization expense related to the pending Paddock acquisition has been included in the table below. The estimated amortization expense for each of the following five years is as follows:

Fiscal Year	Amount
2011[1]	$11,800
2012	50,700
2013	51,900
2014	51,400
2015	50,400

(1) Reflects remaining three months of fiscal 2011.

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NOTE 8 – INDEBTEDNESS

Total borrowings outstanding are summarized as follows:

	March 26, 2011	June 26, 2010	March 27, 2010
Short-term debt:			
Swingline loan	$—	$9,000	$—
Line of credit – India subsidiary	1,180	—	—
Current portion of long-term debt:			
Letter of undertaking – Israeli subsidiary	—	400,000	—
Term loan	15,000	—	—
Total	16,180	409,000	—
Long-term debt:			
Revolving line of credit	—	95,000	—
Term loans	260,000	225,000	225,000
Senior notes	615,000	615,000	200,000
Other	442	—	—
Letter of undertaking – Israeli subsidiary	—	—	400,000
Total	875,442	935,000	825,000
Total debt	$891,622	$1,344,000	$825,000

As discussed in Note 2, on January 20, 2011, the Company announced that it had signed a definitive agreement to acquire substantially all of the assets of Paddock for approximately $540,000 in cash. The transaction is expected to close in the Company's fourth quarter of fiscal 2011. The Company intends to fund the transaction using a combination of cash on hand, utilization of its existing credit facilities and a new five-year term loan. Concurrent with the signing of the agreement, the Company entered into a Term Loan Agreement (Agreement). Under the terms of the Agreement, the term loan commitment is currently $250,000 and will be funded in full in conjunction with the closing of the Paddock acquisition, which is expected to occur in the fourth quarter of fiscal 2011. The final maturity date of the term loan is the fifth annual anniversary date of the funding in full of the term loan; however, the term loan will be subject to mandatory partial repayments of $25,000 on each of the first four annual anniversary dates of the funding. The term loan will bear interest, at the election of the Company, at either the Annual Base Rate or the Adjusted LIBO rate plus an Applicable Margin, as specified in the Agreement. As of March 26, 2011, there was no outstanding debt related to this commitment.

On October 8, 2010, the Company entered into a credit agreement with a group of banks (the 2010 Credit Agreement), which provides an initial revolving loan commitment of $350,000 and an initial term loan commitment of $150,000, each subject to increase or decrease as specified in the 2010 Credit Agreement. Both loans bear interest, at the election of the Company, at either the Annual Base Rate plus an Applicable Margin or the Adjusted LIBOR plus an Applicable Margin, as specified and defined in the 2010 Credit Agreement. The obligations under the 2010 Credit Agreement are guaranteed by certain subsidiaries of the Company, and in some instances, the obligations may be secured by a pledge of 65% of the stock of certain foreign subsidiaries.

The final maturity date of the term and revolving loans under the 2010 Credit Agreement is October 8, 2015; however, the term loan is subject to mandatory partial repayments of $15,000 on each of the first four annual anniversary dates of the agreement. The Company used the proceeds from the term loan and revolving loan for general corporate purposes and to repay certain other outstanding debt, including the $100,000 term loan made pursuant to the Company’s prior credit agreement.

In connection with the execution of the 2010 Credit Agreement, the Company terminated its prior credit agreement, dated as of March 16, 2005, and amended its existing term loan agreement, dated as of April 22, 2008, to conform certain covenants in that term loan agreement to the covenants contained in the 2010 Credit Agreement and to make certain other conforming changes.

On March 16, 2005, the Company's Israeli holding company subsidiary entered into a letter of undertaking and obtained a loan in the sum of $400,000. The terms required the Company to maintain a deposit of $400,000 in an uninsured account with the lender as security for the loan. In the first quarter of fiscal 2011, the Company elected to prepay the entire loan balance of $400,000 using the restricted cash deposit discussed above. The prepayment was completed on July 19, 2010.

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 Securitization Program is a 364-day facility, and on July 22, 2010, the Company renewed the Securitization Program with Bank of America, as Agent, and Wells Fargo Bank, National Association (Wells Fargo) as Managing Agent (together, the Committed Investors).

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 and Wells Fargo have committed $100,000 and $50,000, respectively, effectively allowing the Company to borrow up to a total amount of $150,000, subject to a Maximum Net Investment calculation as defined in the agreement. At March 26, 2011, the full $150,000 was available under this calculation. The interest rate on any borrowings is based on the thirty-day LIBOR plus 0.55%. In addition, a facility fee of 0.55% is applied to the $150,000 commitment. Under the terms of the Securitization Program, the Company may elect to have the entire amount or any portion of the facility unutilized.

Any borrowing made pursuant to the Securitization Program will be classified as short-term 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. There were no borrowings outstanding under the Securitization Program at March 26, 2011, June 26, 2010 and March 27, 2010.

NOTE 9 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company accounts for derivatives in accordance with ASC Topic 815, "Derivatives and Hedging" (ASC 815), which establishes accounting and reporting standards requiring that derivative instruments (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at fair value. Additionally, changes in the derivative's fair value shall be recognized currently 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.

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.

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.

Subsequent to the end of the third quarter of fiscal 2011, the Company entered into interest rate swap agreements to reduce the impact of fluctuations in interest rates on the new Agreement, as discussed in Note 8. The interest rate swap agreements are contracts to exchange floating rate for fixed rate interest payments over the life of the agreements 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. The interest rate swap agreements fix the interest rate at 2.5775% on an initial notional amount of principal of $150,000 on the Agreement. The interest rate swap agreements have a start date of August 3, 2011 and will expire on May 3, 2016.

In conjunction with the Company's 2010 Credit Agreement, in the second quarter of fiscal 2011, the Company entered into interest rate swap agreements to reduce the impact of fluctuations in interest rates on the term loan under the 2010 Credit Agreement. The interest rate swap agreements are contracts to exchange floating rate for fixed rate interest payments over the life of the agreements 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. The interest rate swap agreements fix the interest rate at 1.545% on an initial notional amount of principal of $90,000 on the 2010 term loan. The interest rate swap agreements will expire on October 8, 2015.

In the third quarter of fiscal 2010, with the expected issuance of long-term debt to partially fund the PBM acquisition, the Company entered into T-Locks with a notional value of $230,000 to hedge the exposure to the possible rise in the benchmark interest rate prior to the issuance of Senior Notes. The T-Locks, which the Company designated as cash flow hedges, were settled in the fourth quarter of fiscal 2010 upon the issuance of an aggregate of $415,000 principal amount of Senior Notes in April 2010 for a cumulative gain of $2,253, which was recorded in OCI and is being amortized to earnings as a reduction to interest expense over the life of those Senior Notes.

In conjunction with the Company's prior credit agreement, during the fourth quarter of fiscal 2005, the Company entered into two interest rate swap agreements to reduce the impact of fluctuations in interest rates on the term and revolving commitments thereunder. These interest rate swap agreements were contracts to exchange floating rate for fixed rate interest payments over the life of the agreements without the exchange of the underlying notional amounts. The notional amounts of the interest rate swap agreements were used to measure interest to be paid or received and did not represent the amount of exposure to credit loss. The differential paid or received on the interest rate swap agreements was recognized as an adjustment to interest expense.

The interest rate swap agreements fixed the interest rate at 4.77% on an initial notional amount of principal of $50,000 on the revolving loan and $100,000 on the term loan. During the first quarter of fiscal 2010, the Company repaid its $50,000 revolving loan commitment. Due to the repayment of the loan, the Company recorded an additional $1,100 in Other expense related to the termination and ultimate cash settlement of the interest rate swap agreement. The remaining interest rate swap agreement on the $100,000 term loan expired on March 16, 2010.

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 period earnings.

The Company’s foreign currency hedging program also consists of 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 twelve 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 twelve months. The Company did not have any foreign currency put or call contracts as of March 26, 2011.

In accordance with ASC 815, the Company has designated its interest rate swaps and 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 has also assessed, 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.

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 approximates $257,300. 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 effects of derivative instruments on the Company’s condensed consolidated balance sheets as of March 26, 2011, June 26, 2010 and March 27, 2010 and on the Company’s income and OCI for the three and nine months ended March 26, 2011 and March 27, 2010 were as follows (amounts presented exclude any income tax effects):

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Fair Values of Derivative Instruments in Condensed Consolidated Balance Sheet
(Designated as (non)hedging instruments under ASC 815)

	Asset Derivatives Balance Sheet Location	Fair Value March 26, 2011	June 26, 2010	March 27, 2010
Hedging derivatives:				
Foreign currency forward contracts	Other current assets	$4,235	$51	$ 528
T-Locks	Other current assets	—	—	2,700
Interest rate swap agreements	Other non-current assets	2,092	—	—
Total hedging derivatives		$6,327	$51	$ 3,228
Non-hedging derivatives:				
Foreign currency forward contracts	Other current assets	$457	$351	$ 1,524
Total non-hedging derivatives		$457	$351	$ 1,524

	Liability Derivatives Balance Sheet Location	Fair Value March 26, 2011	June 26, 2010	March 27, 2010
Hedging derivatives:				
Foreign currency forward contracts	Accrued liabilities	$1,403	$4,827	$ 174
Total hedging derivatives		$1,403	$4,827	$ 174
Non-hedging derivatives:				
Foreign currency forward contracts	Accrued liabilities	$54	$100	$ 2,145
Total non-hedging derivatives		$54	$100	$ 2,145

Effects of Derivative Instruments on Income and OCI for the three months ended March 26, 2011

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain 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)	
T-Locks	$ —	Interest, net	$56	Interest, net	$—
Interest rate swap agreements	—	Interest, net	292	Interest, net	—
Foreign currency forward contracts	1,911	Net sales	(389)	Net sales	(63)
		Cost of sales	743	Cost of sales	(1)
		Interest, net	7		
		Other income, net	529		
Total	$ 1,911		$1,238		$(64)

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Effects of Derivative Instruments on Income and OCI for the three months ended March 27, 2010

Derivatives in ASC 815 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 Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
Interest rate swap agreements	$ 689	Interest, net	$(871)	Interest, net	$—
Foreign currency forward contracts	(1,538)	Net sales	(279)	Cost of sales	—
		Cost of sales	944		
		Interest, net	8		
		Other expense, net	(429)		
Total	$ (849)		$(627)		$—

Derivatives Not Designated as Hedging Instruments under ASC 815	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative	
		Third Quarter	
		2011	2010
Foreign currency forward contracts	Interest, net	$4	$(18)
Foreign currency forward contracts[1]	Other income (expense), net	(257)	901
Total		$(253)	$883

(1) The net hedge result offsets the revaluation of the underlying balance sheet exposure, which is also recorded in Other expense.

Effects of Derivative Instruments on Income and OCI for the nine months ended March 26, 2011

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain 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 Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
T-Locks	$ —	Interest, net	$168	Interest, net	$—
Interest rate swap agreements	2,150	Interest, net	543	Interest, net	—
Foreign currency forward contracts	7,403	Net sales	(728)	Net sales	(87)
		Cost of sales	(779)	Cost of sales	(4)
		Interest, net	33		
		Other income, net	2,243		
Total	$ 9,553		$1,480		$(91)

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Effects of Derivative Instruments on Income and OCI for the nine months ended March 27, 2010

Derivatives in ASC 815 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 Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
Interest rate swap agreements	$ 1,767	Interest, net	$(3,569)	Other expense	$(1,100)
Foreign currency forward contracts	(1,607)	Net sales	(840)	Cost of sales	(37)
		Cost of sales	2,126		
		Interest, net	42		
		Other expense, net	(434)		
Total	$ 160		$(2,675)		$(1,137)

Derivatives Not Designated as Hedging Instruments under ASC 815	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative Nine Months Ended 2011	2010
Foreign currency forward contracts	Interest, net	$(5)	$(49)
Foreign currency forward contracts[1]	Other income (expense), net	(735)	2,133
Total		$(740)	$2,084

(1) The net hedge result offsets the revaluation of the underlying balance sheet exposure, which is also recorded in Other expense.

NOTE 10 – SHAREHOLDERS' EQUITY

The Company issued 382 and 272 shares related to the exercise and vesting of share-based compensation awards during the third quarter of fiscal 2011 and 2010, respectively. Year-to-date, the Company issued 1,149 and 1,349 shares related to share-based compensation programs in fiscal 2011 and 2010, respectively.

Prior to fiscal 2011, the Company had a common stock repurchase program. Purchases were made on the open market, subject to market conditions, and were funded by available cash or borrowings. On February 1, 2008, the Board of Directors approved a plan to repurchase shares of common stock with a value up to $150,000. The Company completed purchases under this plan on December 16, 2009. All common stock repurchased by the Company becomes authorized but unissued stock and is available for reissuance in the future for general corporate purposes. During the third quarter of fiscal 2011, the Company repurchased 1 share of its common stock for $71 in private party transactions. During the third quarter of fiscal 2010, the Company repurchased 2 shares of its common stock for $50 in private party transactions. Year-to-date in fiscal 2011, the Company repurchased 142 shares of its common stock for $8,285, all of which were repurchased in private party transactions. Year-to-date in fiscal 2010, the Company repurchased 2,060 shares of its common stock for $70,972, of which 83 shares were repurchased in private party transactions.

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NOTE 11 – COMPREHENSIVE INCOME

Comprehensive income is comprised of all changes in shareholders' equity during the period other than from transactions with shareholders. Comprehensive income consisted of the following:

	Third Quarter		Year-to-Date	
	2011	2010	2011	2010
Net income	$89,085	$62,181	$253,627	$174,855
Other comprehensive income (loss):				
Change in fair value of derivative instruments, net of tax	129	1,160	5,058	2,849
Foreign currency translation adjustments	15,750	1,771	60,000	17,129
Change in fair value of investment securities, net of tax	—	—	1,042	—
Postretirement liability adjustments, net of tax	(17)	(107)	(220)	(325)
Comprehensive income	$104,947	$65,005	$319,507	$194,508

NOTE 12 – INCOME TAXES

The effective tax rate on income from continuing operations was 18.8% and 27.2% for the third quarter of fiscal 2011 and 2010, respectively. The effective tax rate on income from continuing operations was 24.4% and 27.8% for the first nine months of fiscal 2011 and 2010, respectively. Foreign source income from continuing operations before tax for the third quarter of fiscal 2011 was 35% of pre-tax earnings, up from 28% in the same period of fiscal 2010. Foreign source income from continuing operations before tax for the first nine months of fiscal 2011 was 31% of pre-tax earnings, down from 33% in the same period for fiscal 2010. Foreign source income is generally derived from jurisdictions with a lower tax rate than the U.S. statutory rate. In the third quarter of fiscal 2011, Israel enacted new tax legislation. This legislation reduced the effective tax rate for qualifying entities to 10% for 2011 and 2012, 7% for 2013 and 2014, and 6% thereafter. Two of the Company's subsidiaries will be eligible for this benefit and management currently anticipates electing the new legislation for years beginning after fiscal 2011. The impact of this legislative change in the statutory rate is $8,500 and reduces the Company's fiscal 2011 tax rate by 2.5%. In addition, the effective tax rate for fiscal 2011 includes the impact of the newly enacted Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the Act) enacted in the second quarter. Among other provisions, the Act provided for the restoration of the research and development tax credit, applied retroactively to January 1, 2010. Accordingly, tax expense was reduced by approximately $1,820.

In July 2009, Israel lowered its statutory corporate tax rate for the following calendar years: 24% for 2010, 23% for 2011, 22% for 2012, 21% for 2013, 20% for 2014 and 18% for 2015 and thereafter. The recorded effective tax rate for the first quarter of fiscal 2010 was reduced by $4,600 or 5.7% due to the statutory tax rate changes in Israel.

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.

The total amount of unrecognized tax benefits was $116,039 and $72,348 as of March 26, 2011 and June 26, 2010, respectively. It is reasonably possible that the amount of unrecognized tax benefits may significantly change in the next twelve months. The Company is not able to reasonably estimate the changes to unrecognized tax benefits that will be required in future periods.

The total amount accrued for interest and penalties in the liability for uncertain tax positions was $21,179 and $14,430 as of March 26, 2011 and June 26, 2010, respectively.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

On March 11, 2009, a purported shareholder of the Company named Michael L. 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 Joseph Papa and 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 purported shareholders of the Company, namely CLAL Finance Batucha Investment Management, Ltd., The Phoenix Insurance Company, Ltd., Excellence Nessuah Mutual Funds Management, Ltd. and Excellence Nessuah Gemel & Pension, Ltd., as Co-Lead Plaintiffs. On July 31, 2009, these 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 asserts many of the same claims and allegations as the original pleading. It also alleges that the Company should have disclosed, prior to February 3, 2009, that Lehman had sold the ARS to the Company and 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 alleges 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. 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 Co-Lead Plaintiffs (who are the only plaintiffs named in the amended complaint) lack 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. The motion to dismiss is pending. On December 23, 2010, a shareholder named Harel Insurance, Ltd. (Harel) filed a motion to intervene as an additional named plaintiff. Although Harel is a non-U.S. investor, it claims to have purchased the Company's common stock on a U.S. exchange. 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 Co-Lead Plaintiffs. These motions are pending.

On June 2, 2009, a purported shareholder of the Company named Bill Drinkwine filed a purported shareholder derivative complaint in the Circuit Court of Allegan County, Michigan against a number of officers and directors of the Company, including certain of the officers and directors named as defendants in the federal securities suit described above, as well as others. Like the federal securities suit, the state court complaint alleged that the Company misled investors by failing to disclose, prior to February 3, 2009, that the ARS had been purchased from Lehman and allegedly "became worthless" when Lehman filed for bankruptcy. The complaint asserted that the officer and director defendants violated their fiduciary duties to the Company by selling shares of their personally-held Perrigo stock during the five-month period between Lehman's bankruptcy filing and the Company's February 3, 2009 disclosure of the write-down of the value of the ARS. The complaint sought to "recover" for Perrigo the proceeds received by the officer and director defendants from such stock sales.

Prior to filing the suit, on March 3, 2009, Mr. Drinkwine made a demand on the Company's Board of Directors that Perrigo bring the suit directly against the accused officers and directors. In response to that demand, the Perrigo Board appointed a committee of all independent, disinterested directors (as defined by the Michigan Business Corporation Act) to investigate Mr. Drinkwine's allegations. The committee retained independent counsel to assist it in that investigation. The committee and its counsel conducted an investigation and concluded that Mr. Drinkwine's allegations were without merit and, consequently, that it would not be in Perrigo's best interests for the suit to go forward. Based on the findings of that investigation, on August 24, 2009, the Company filed a motion to dismiss the complaint pursuant to Section 495 of the Michigan Business Corporation Act, which provides that when a committee of all independent, disinterested directors makes a good faith determination, based upon a reasonable investigation, that the maintenance of a derivative suit would not be in the best interests of the corporation, the court shall dismiss the derivative proceeding. On November 3, 2010, the Court granted the Company's dismissal motion and terminated the case. Mr. Drinkwine did not appeal that ruling.

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. However, depending on the amount and timing of an unfavorable resolution of these lawsuits, the Company's future results of operations or cash flow could be materially impacted in a particular period.

NOTE 14 – 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. As discussed in Note 1, following the purchase of PBM, in the first quarter of fiscal 2011, the Company realigned and expanded its reportable segments to include its Nutritionals segment, representing infant formulas and other nutritional products. As discussed in Note 3, beginning in the third quarter of fiscal 2009, the operating results of the Company's former Israel Consumer Products operating segment are reported as discontinued operations in the Company's condensed consolidated statements of income and are not included in the table below for all periods presented. 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. In the first quarter of fiscal 2010, the Company recorded a $14,000 in-process research and development charge in its Rx Pharmaceuticals segment as a result of acquiring an ANDA from KV Pharmaceutical. In the third quarter of fiscal 2010, the Company recorded restructuring charges of $699 in its Nutritionals segment and $6,775 in its API segment, related to facility closure costs in Florida and the sale of the German API facility, respectively.

	Consumer Healthcare	Nutritionals	Rx Pharmaceuticals	API	Other	Unallocated expenses	Total
Third Quarter 2011							
Net sales	$425,025	$124,077	$ 84,383	$41,206	$16,872	—	$691,563
Operating income (loss)	$72,204	$17,932	$ 31,141	$11,318	$301	$(9,983)	$122,913
	$2,128	$5,790	$ 2,827	$519	$439	—	$11,703

Amortization of intangibles							
Total assets	$1,223,242	$981,375	$437,745	$266,064	$126,268	—	$3,034,694
Third Quarter 2010							
Net sales	$377,064	$58,722	$50,802	$32,802	$18,242	—	$537,632
Operating income (loss)	$75,459	$3,352	$16,568	$(547)	$2,115	$(7,795)	$89,152
Amortization of intangibles	$1,357	$450	$2,645	$500	$423	—	$5,375
Total assets	$1,541,250	$164,255	$413,113	$242,228	$119,874	—	$2,480,720
	Consumer Healthcare	Nutritionals	Rx Pharmaceuticals	API	Other	Unallocated expenses	Total
Year-to-Date 2011							
Net sales	$1,251,125	$380,219	$251,250	$118,900	$48,906		$2,050,400
Operating income (loss)	$218,917	$56,174	$82,091	$31,673	$1,098	$(23,034)	$366,919
Amortization of intangibles	$6,124	$17,383	$8,035	$1,527	$1,296	—	$34,365
Year-to-Date 2010							
Net sales	$1,174,886						