

PERRIGO CO  
Form 10-Q  
February 01, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended: December 29, 2012

OR

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

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

Commission file number 0-19725

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PERRIGO COMPANY  
(Exact name of registrant as specified in its charter)

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

515 Eastern Avenue 49010  
Allegan, Michigan (Zip Code)  
(Address of principal executive offices)

(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)

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

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

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

Large accelerated filer  Accelerated filer

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

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

As of January 28, 2013, the registrant had 93,987,254 outstanding shares of common stock.



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Cautionary Note Regarding Forward-Looking Statements

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

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

## PERRIGO COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

(unaudited)

|                                     | Three Months Ended   |                      | Six Months Ended     |                      |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                     | December 29,<br>2012 | December 31,<br>2011 | December 29,<br>2012 | December 31,<br>2011 |
| Net sales                           | \$882,959            | \$838,170            | \$1,652,769          | \$1,563,465          |
| Cost of sales                       | 575,794              | 543,295              | 1,060,335            | 1,041,011            |
| Gross profit                        | 307,165              | 294,875              | 592,434              | 522,454              |
| Operating expenses                  |                      |                      |                      |                      |
| Distribution                        | 11,699               | 9,095                | 22,466               | 19,359               |
| Research and development            | 28,323               | 31,148               | 55,718               | 50,786               |
| Selling and administration          | 103,286              | 93,964               | 193,820              | 190,089              |
| Total operating expenses            | 143,308              | 134,207              | 272,004              | 260,234              |
| Operating income                    | 163,857              | 160,668              | 320,430              | 262,220              |
| Interest, net                       | 15,314               | 15,641               | 31,167               | 28,211               |
| Other expense, net                  | 76                   | 752                  | 14                   | 981                  |
| Loss on sale of investment          | 3,049                | —                    | 3,049                | —                    |
| Income before income taxes          | 145,418              | 144,275              | 286,200              | 233,028              |
| Income tax expense                  | 39,463               | 44,536               | 74,665               | 62,831               |
| Net income                          | \$105,955            | \$99,739             | \$211,535            | \$170,197            |
| Earnings per share                  |                      |                      |                      |                      |
| Basic earnings per share            | \$1.13               | \$1.07               | \$2.26               | \$1.83               |
| Diluted earnings per share          | \$1.12               | \$1.06               | \$2.24               | \$1.81               |
| Weighted average shares outstanding |                      |                      |                      |                      |
| Basic                               | 93,903               | 93,221               | 93,755               | 93,066               |
| Diluted                             | 94,450               | 94,043               | 94,408               | 93,983               |
| Dividends declared per share        | \$0.09               | \$0.08               | \$0.17               | \$0.15               |

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

|  | Three Months Ended   |                      | Six Months Ended     |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | December 29,<br>2012 | December 31,<br>2011 | December 29,<br>2012 | December 31,<br>2011 |
| Net income   | \$105,955            | \$99,739             | \$211,535            | \$170,197            |
| Other comprehensive income (loss):                                   |                      |                      |                      |                      |
| Change in fair value of derivative financial instruments, net of tax | 5,244                | (1,496 )             | 6,706                | (9,292 )             |
| Foreign currency translation adjustments                             | 28,026               | (12,851 )            | 33,450               | (65,812 )            |
| Change in fair value of investment securities, net of tax            | 1,037                | (933 )               | 1,037                | (933 )               |
| Post-retirement liability adjustments, net of tax                    | —                    | (24 )                | (41 )                | (41 )                |
| Other comprehensive income (loss), net of tax                        | 34,307               | (15,304 )            | 41,152               | (76,078 )            |
| Comprehensive income   | \$140,262            | \$84,435             | \$252,687            | \$94,119             |

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

|  | December 29,<br>2012 | June 30,<br>2012 | December 31,<br>2011 |
|--|----------------------|------------------|----------------------|
| Assets   |                      |                  |                      |
| Current assets   |                      |                  |                      |
| Cash and cash equivalents                                    | \$459,514            | \$602,489        | \$531,410            |
| Accounts receivable, net                                     | 583,903              | 572,582          | 530,178              |
| Inventories  | 638,797              | 547,455          | 580,668              |
| Current deferred income taxes                                | 44,813               | 45,738           | 47,216               |
| Income taxes refundable                                      | 4,323                | 1,047            | 4,111                |
| Prepaid expenses and other current assets                    | 42,771               | 26,610           | 40,509               |
| Total current assets   | 1,774,121            | 1,795,921        | 1,734,092            |
| Property and equipment                                       | 1,192,787            | 1,118,837        | 1,066,307            |
| Less accumulated depreciation                                | (574,362)            | (540,487)        | (515,600)            |
|  | 618,425              | 578,350          | 550,707              |
| Goodwill and other indefinite-lived intangible assets        | 962,804              | 820,122          | 808,531              |
| Other intangible assets, net                                 | 845,666              | 729,253          | 752,595              |
| Non-current deferred income taxes                            | 14,938               | 13,444           | 12,330               |
| Other non-current assets                                     | 78,382               | 86,957           | 84,299               |
|  | \$4,294,336          | \$4,024,047      | \$3,942,554          |
| Liabilities and Shareholders' Equity                         |                      |                  |                      |
| Current liabilities  |                      |                  |                      |
| Accounts payable   | \$321,205            | \$317,341        | \$324,349            |
| Short-term debt  | 2,648                | 90               | —                    |
| Payroll and related taxes                                    | 71,081               | 89,934           | 71,059               |
| Accrued customer programs                                    | 122,651              | 116,055          | 116,888              |
| Accrued liabilities  | 65,981               | 76,406           | 85,661               |
| Accrued income taxes   | 11,299               | 12,905           | 28,684               |
| Current portion of long-term debt                            | 40,000               | 40,000           | 40,000               |
| Total current liabilities                                    | 634,865              | 652,731          | 666,641              |
| Non-current liabilities                                      |                      |                  |                      |
| Long-term debt, less current portion                         | 1,329,886            | 1,329,235        | 1,452,546            |
| Non-current deferred income taxes                            | 47,481               | 24,126           | 9,163                |
| Other non-current liabilities                                | 173,644              | 165,310          | 183,393              |
| Total non-current liabilities                                | 1,551,011            | 1,518,671        | 1,645,102            |
| Shareholders' Equity   |                      |                  |                      |
| Controlling interest:  |                      |                  |                      |
| Preferred stock, without par value, 10,000 shares authorized | —                    | —                | —                    |
| Common stock, without par value, 200,000 shares authorized   | 524,124              | 504,708          | 486,665              |
| Accumulated other comprehensive income                       | 80,556               | 39,404           | 50,972               |
| Retained earnings  | 1,502,455            | 1,306,925        | 1,090,509            |
|  | 2,107,135            | 1,851,037        | 1,628,146            |
| Noncontrolling interest                                      | 1,325                | 1,608            | 2,665                |
| Total shareholders' equity                                   | 2,108,460            | 1,852,645        | 1,630,811            |
|  | \$4,294,336          | \$4,024,047      | \$3,942,554          |

Supplemental Disclosures of Balance Sheet Information

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|  |             |             |             |
|--|-------------|-------------|-------------|
| Allowance for doubtful accounts                | \$2,473     | \$2,556     | \$8,993     |
| Working capital                                | \$1,139,256 | \$1,143,190 | \$1,067,451 |
| Preferred stock, shares issued and outstanding | —           | —           | —           |
| Common stock, shares issued and outstanding    | 93,980      | 93,484      | 93,287      |

See accompanying notes to condensed consolidated financial statements.

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

|   | Six Months Ended     |                      |
|---|----------------------|----------------------|
|   | December 29,<br>2012 | December 31,<br>2011 |
| Cash Flows From (For) Operating Activities                                |                      |                      |
| Net income  | \$211,535            | \$ 170,197           |
| Adjustments to derive cash flows  |                      |                      |
| Gain on sale of pipeline development projects                             | —                    | (3,500 )             |
| Loss on sale of investment  | 3,049                | —                    |
| Depreciation and amortization   | 69,939               | 67,105               |
| Share-based compensation  | 9,363                | 8,977                |
| Income tax benefit from exercise of stock options                         | 1,074                | 934                  |
| Excess tax benefit of stock transactions                                  | (15,668              | ) (11,215 )          |
| Deferred income taxes   | 972                  | 3,669                |
| Subtotal  | 280,264              | 236,167              |
| Changes in operating assets and liabilities, net of business acquisitions |                      |                      |
| Accounts receivable   | 16,228               | (10,657 )            |
| Inventories   | (44,980              | ) (34,150 )          |
| Accounts payable  | (18,072              | ) (14,319 )          |
| Payroll and related taxes   | (19,966              | ) (12,012 )          |
| Accrued customer programs   | 6,596                | (1,412 )             |
| Accrued liabilities   | (7,156               | ) 16,300             |
| Accrued income taxes  | 12,835               | 46,409               |
| Other   | 3,854                | (6,204 )             |
| Subtotal  | (50,661              | ) (16,045 )          |
| Net cash from operating activities  | 229,603              | 220,122              |
| Cash Flows (For) From Investing Activities                                |                      |                      |
| Acquisitions of businesses, net of cash acquired                          | (326,944             | ) (547,052 )         |
| Proceeds from sale of intangible assets and pipeline development projects | —                    | 10,500               |
| Additions to property and equipment                                       | (39,279              | ) (55,659 )          |
| Acquisitions of assets  | —                    | (750 )               |
| Net cash for investing activities   | (366,223             | ) (592,961 )         |
| Cash Flows (For) From Financing Activities                                |                      |                      |
| Borrowings (repayments) of short-term debt, net                           | 2,558                | (2,770 )             |
| Borrowings of long-term debt  | 40,651               | 1,087,546            |
| Repayments of long-term debt  | (40,000              | ) (485,000 )         |
| Deferred financing fees   | (643                 | ) (5,097 )           |
| Excess tax benefit of stock transactions                                  | 15,668               | 11,215               |
| Issuance of common stock  | 7,617                | 7,699                |
| Repurchase of common stock  | (12,159              | ) (7,954 )           |
| Cash dividends  | (16,005              | ) (14,021 )          |
| Net cash (for) from financing activities                                  | (2,313               | ) 591,618            |
| Effect of exchange rate changes on cash                                   | (4,042               | ) 2,527              |
| Net (decrease) increase in cash and cash equivalents                      | (142,975             | ) 221,306            |
| Cash and cash equivalents, beginning of period                            | 602,489              | 310,104              |
| Cash and cash equivalents, end of period                                  | \$459,514            | \$531,410            |

Supplemental Disclosures of Cash Flow Information

Cash paid/received during the period for:

|                       |          |          |
|-----------------------|----------|----------|
| Interest paid         | \$29,244 | \$22,861 |
| Interest received     | \$2,741  | \$1,301  |
| Income taxes paid     | \$67,863 | \$15,973 |
| Income taxes refunded | \$1,155  | \$802    |

See accompanying notes to condensed consolidated financial statements.

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PERRIGO COMPANY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
December 29, 2012  
(in thousands, except per share amounts)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

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

Basis of Presentation

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

The Company's sales of OTC pharmaceutical products are subject to the seasonal demands for cough/cold/flu and allergy products. In addition, with the acquisition of Sergeant's Pet Care Products, Inc. ("Sergeant's") discussed in Note 2, the Company's pet healthcare products are subject to the seasonal demand for flea and tick products, which typically peaks during the warmer weather months. Accordingly, operating results for the six months ended December 29, 2012, are not necessarily indicative of the results that may be expected for a full fiscal year. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended June 30, 2012.

The Company's fiscal year is a 52- or 53-week period, which ends the Saturday on or about June 30. An extra week is required approximately every six years in order to re-align the Company's fiscal reporting dates with the actual calendar months. Fiscal 2013 is a 52-week year and included 13 and 26 weeks of operations in the second quarter and year-to-date results, respectively. Fiscal 2012 was a 53-week year and included 14 and 27 weeks of operations in the second quarter and year-to-date results, respectively. This factor should be considered when comparing the Company's second quarter and year-to-date fiscal 2013 financial results to the prior year periods.

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

Principles of Consolidation

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

#### Recently Adopted Accounting Standards

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-05, "Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income." The amendments in this ASU improve the prominence of other comprehensive income items and align the presentation of other comprehensive income with International Financial Reporting Standards. These changes allow an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single statement of comprehensive

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income or in two separate and consecutive statements. Both methods must still report each component of net income with total income, each component of other comprehensive income with a total amount of other comprehensive income, and a total amount of comprehensive income. The amendments in this ASU are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. The amendments should be applied retrospectively. This guidance was effective for the Company in the first quarter of fiscal 2013.

In December 2011, the FASB issued ASU 2011-12, "Comprehensive Income (ASC Topic 220) - Deferral of Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." This ASU defers the effective date for the part of ASU 2011-05, "Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income" that would require adjustments of items out of accumulated other comprehensive income to be presented on the components of both net income and other comprehensive income in financial statements. The changes in ASU 2011-05 would have been effective for annual and interim periods beginning on or after December 15, 2011, but those changes are now deferred until the FASB can adequately evaluate the costs and benefits of this presentation. The Company has deferred adoption of the presentation requirement and has provided the disclosures required under the remainder of ASU 2011-05 in the condensed consolidated statements of comprehensive income.

## NOTE 2 – BUSINESS ACQUISITIONS

## Fiscal 2013

Cobrek Pharmaceuticals, Inc. – On December 28, 2012, the Company acquired the remaining 81.5% interest of Cobrek Pharmaceuticals, Inc. ("Cobrek"), a privately-held, Chicago, Illinois-based drug development company, for \$41,967 in cash. In May 2008, the Company acquired an 18.5% minority stake in Cobrek for \$12,575 in conjunction with entering into a product development collaborative partnership agreement focused on generic pharmaceutical foam dosage form products. As of the acquisition date, the partnership had successfully yielded two commercialized foam-based products and had an additional two U.S. Food and Drug Administration ("FDA") approved foam-based products, both of which were launched subsequent to the Company's second quarter of fiscal 2013. Cobrek derives its earnings stream primarily from exclusive technology agreements. The acquisition of Cobrek is expected to further strengthen the Company's position in foam-based technologies for existing and future U.S. Rx products.

In conjunction with the acquisition, the Company adjusted the fair value of its 18.5% noncontrolling interest, which was valued at \$9,526, and recognized a loss of \$3,049 in other expense during the second quarter of fiscal 2013. Also in conjunction with the acquisition, the Company incurred \$1,500 of severance costs in the second quarter of fiscal 2013.

The preliminary purchase price allocation was based on an assessment of the fair value of the assets and liabilities acquired. Based on the Company's preliminary allocation of the purchase price, the acquisition had the following effect on the Company's consolidated financial position as of December 29, 2012:

|   |          |   |
|---|----------|---|
| Other assets  | \$ 371   |   |
| Goodwill  | 18,823   |   |
| Other intangible assets - Exclusive technology agreements | 51,122   |   |
| Deferred tax liabilities                                  | (18,823  | ) |
| Total purchase price                                      | \$51,493 |   |

The total purchase price above consists of the \$41,967 cash purchase price and the \$9,526 adjusted basis of the Company's existing investment in Cobrek. The allocation of the purchase price above is considered preliminary and was based on valuation information, estimates and assumptions available at December 29, 2012. Management is still in the process of verifying data and finalizing information related to the valuation and recording of deferred income taxes and the resulting effects on the value of goodwill. The Company expects to finalize these matters within the measurement period, which is expected to end in the third quarter of fiscal 2013, as final asset and liability valuations

are completed.

The \$18,823 of goodwill was assigned to the Rx Pharmaceuticals segment at the time of acquisition. Goodwill is not amortized for financial reporting purposes or for tax purposes.

Management assigned fair values to the identifiable intangible assets by estimating the discounted forecasted cash flows related to the technology agreements. The estimated useful lives of the agreements are twelve years, and they are amortized on a proportionate basis consistent with the economic benefits derived therefrom.

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Sergeant's Pet Care Products, Inc. – On October 1, 2012, the Company completed the acquisition of substantially all of the assets of privately-held Sergeant's for \$285,000 in cash. At the end of the second quarter of fiscal 2013, the Company had incurred \$1,920 of acquisition costs, of which \$1,880 and \$40 were expensed in operations in the first and second quarters of fiscal 2013, respectively. Headquartered in Omaha, Nebraska, Sergeant's is a leading supplier of pet healthcare products, including flea and tick remedies, health and well-being products, natural and formulated treats, and consumable products. The acquisition expanded the Company's Consumer Healthcare product portfolio into the pet healthcare category.

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 Sergeant's are included in the Consumer Healthcare segment of the Company's consolidated results of operations from the acquisition date to December 29, 2012. Since the acquisition date, Sergeant's contributed approximately \$24,800 in revenue and an operating loss of approximately \$10,300, which included a non-recurring charge of \$7,700 to cost of sales related to the step-up in value of inventory acquired and sold during the second quarter of fiscal 2013.

The preliminary allocation of the \$285,000 purchase price through December 29, 2012 was:

|                           |           |
|---------------------------|-----------|
| Cash                      | \$23      |
| Accounts receivable       | 19,696    |
| Inventory                 | 37,689    |
| Property and equipment    | 25,396    |
| Deferred tax assets       | 1,508     |
| Goodwill                  | 68,229    |
| Other intangible assets   | 147,450   |
| Other assets              | 2,966     |
| Total assets acquired     | 302,957   |
| Accounts payable          | 13,733    |
| Accrued expenses          | 4,224     |
| Total liabilities assumed | 17,957    |
| Net assets acquired       | \$285,000 |

The allocation of the purchase price above is considered preliminary and was based on valuation information, estimates and assumptions available at December 29, 2012. Management is still in the process of verifying data and finalizing information related to the valuation and recording of property and equipment, identifiable intangible assets, deferred income taxes and the resulting effects on the value of goodwill. The Company expects to finalize these matters within the measurement period, which is expected to end in the third quarter of fiscal 2013, as final asset and liability valuations are completed.

The \$68,229 of goodwill was assigned to the Consumer Healthcare segment at the time of acquisition. The purchase price in excess of the value of Sergeant's net assets reflects the strategic value the Company placed on the business. The Company believes it will benefit from the development of the pet healthcare store brand category, an adjacent category to the Company's retail customers of its existing store brand products. Goodwill is not amortized for financial reporting purposes, but is amortized for tax purposes. See Note 6 regarding the timing of the Company's annual goodwill impairment testing.

Other intangible assets acquired in the acquisition were valued as follows:

|                              |          |
|------------------------------|----------|
| Developed product technology | \$65,140 |
| Trade name and trademarks    | 46,000   |
| Favorable supply agreement   | 25,000   |

|                                  |           |
|----------------------------------|-----------|
| Customer relationships           | 10,000    |
| Non-compete agreements           | 1,310     |
| Total intangible assets acquired | \$147,450 |

Management assigned fair values to the identifiable intangible assets through a combination of the relief from royalty method, the excess earnings method, the with or without approach and the lost income method. The developed product technology assets are based on a 10-year useful life and amortized on a straight-line basis. For the trade name and trademarks, the Company concluded that there is no foreseeable limit to the period over which they would be expected to contribute to the



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entity's cash flows; therefore, they are considered to have an indefinite life. The favorable supply agreement and customer relationships are based on a 7- and 20-year useful life, respectively, and amortized on a proportionate basis consistent with the economic benefits derived therefrom. There are nine non-compete agreements, eight based on a 12-month useful life and one based on a 3-year useful life, and all are amortized on a straight-line basis.

At the time of the acquisition, a step-up in the value of inventory of \$7,700 was recorded in the opening balance sheet as assets acquired and was based on valuation estimates, all of which was charged to cost of sales in the second quarter of fiscal 2013 as the acquired inventory was sold. In addition, fixed assets were written up by \$6,100 to their estimated fair market value based on a valuation method that included both the cost and market approaches. This additional step-up in value is being depreciated over the estimated remaining useful lives of the assets.

## Fiscal 2012

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

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

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

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

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

Other intangible assets acquired in the acquisition were valued as follows:

|                        |          |
|------------------------|----------|
| Customer relationships | \$12,000 |
|------------------------|----------|

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

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

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

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

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

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

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

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

Other intangible assets acquired in the acquisition were valued as follows:

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

Management assigned fair values to the identifiable intangible assets through the excess earnings method. The developed product technology assets are based on a 10-year useful life and amortized on a straight-line basis. IPR&D assets

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initially recognized at fair value will be classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. At December 29, 2012, the IPR&D assets have not progressed to the point of establishing developed technologies.

At the time of the acquisition, a step-up in the value of inventory of \$27,179 was recorded in the opening balance sheet as assets acquired and was based on valuation estimates, all of which was charged to cost of sales in the first quarter of fiscal 2012 as the acquired inventory was sold. In addition, fixed assets were written up by \$7,400 to their estimated fair market value based on a valuation method that included both the cost and market approaches. This additional step-up in value is being depreciated over the estimated remaining useful lives of the assets.

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

## NOTE 3 – EARNINGS PER SHARE

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

|   | Three Months Ended   |                      | Six Months Ended     |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | December 29,<br>2012 | December 31,<br>2011 | December 29,<br>2012 | December 31,<br>2011 |
| Numerator:  |                      |                      |                      |                      |
| Net income  | \$105,955            | \$99,739             | \$211,535            | \$170,197            |
| Denominator:  |                      |                      |                      |                      |
| Weighted average shares outstanding for basic EPS   | 93,903               | 93,221               | 93,755               | 93,066               |
| Dilutive effect of share-based awards               | 547                  | 822                  | 653                  | 917                  |
| Weighted average shares outstanding for diluted EPS | 94,450               | 94,043               | 94,408               | 93,983               |

Share-based awards outstanding that were anti-dilutive were 186 and 192 for the second quarter of fiscal 2013 and 2012, respectively. Year-to-date share-based awards outstanding that were anti-dilutive were 133 and 134 for fiscal 2013 and 2012, respectively. These share-based awards were excluded from the diluted EPS calculation.

## NOTE 4 – FAIR VALUE MEASUREMENTS

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

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

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

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

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The following tables summarize the valuation of the Company's financial instruments by the above pricing categories as of December 29, 2012, June 30, 2012, and December 31, 2011:

|  | Fair Value Measurements as of December 29, 2012 Using: |  |   |  |
|--|--|--|---|--|
|  | Total as of<br>December<br>29, 2012                    | Quoted Prices<br>In Active<br>Markets<br>(Level 1) | Prices With<br>Other<br>Observable<br>Inputs<br>(Level 2) | Prices With<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets:  |  |  |   |  |
| Cash equivalents                                       | \$376,471  | \$376,471  | \$—   | \$—  |
| Investment securities                                  | 7,507  | —  | —   | 7,507  |
| Foreign currency forward contracts, net                | 7,492  | —  | 7,492   | —  |
| Funds associated with Israeli post employment benefits | 16,059   | —  | 16,059  | —  |
| Total  | \$407,529  | \$376,471  | \$23,551  | \$7,507  |
| Liabilities:   |  |  |   |  |
| Contingent consideration                               | \$900  | \$—  | \$—   | \$900  |
| Interest rate swap agreements                          | 13,819   | —  | 13,819  | —  |
| Total  | \$14,719   | \$—  | \$13,819  | \$900  |
|  | Fair Value Measurements as of June 30, 2012 Using:     |  |   |  |
|  | Total as of<br>June 30, 2012                           | Quoted Prices<br>In Active<br>Markets<br>(Level 1) | Prices With<br>Other<br>Observable<br>Inputs<br>(Level 2) | Prices With<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets:  |  |  |   |  |
| Cash equivalents                                       | \$479,548  | \$479,548  | \$—   | \$—  |
| Investment securities                                  | 6,470  | —  | —   | 6,470  |
| Funds associated with Israeli post employment benefits | 14,973   | —  | 14,973  | —  |
| Total  | \$500,991  | \$479,548  | \$14,973  | \$6,470  |
| Liabilities:   |  |  |   |  |
| Contingent consideration                               | \$2,900  | \$—  | \$—   | \$2,900  |
| Interest rate swap agreements                          | 14,706   | —  | 14,706  | —  |
| Foreign currency forward contracts, net                | 5,567  | —  | 5,567   | —  |
| Total  | \$23,173   | \$—  | \$20,273  | \$2,900  |

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|  | Fair Value Measurements as of December 31, 2011 Using: |  |   |  |
|--|--|--|---|--|
|  | Total as of<br>December<br>31, 2011                    | Quoted Prices<br>In Active<br>Markets<br>(Level 1) | Prices With<br>Other<br>Observable<br>Inputs<br>(Level 2) | Prices With<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets:</b>   |  |  |   |  |
| Cash equivalents                                       | \$421,653  | \$421,653  | \$—   | \$—  |
| Investment securities                                  | 6,570  | —  | —   | 6,570  |
| Funds associated with Israeli post employment benefits | 15,371   | —  | 15,371  | —  |
| <b>Total</b>   | <b>\$443,594</b>                                       | <b>\$421,653</b>                                   | <b>\$15,371</b>   | <b>\$6,570</b>                                     |
| <b>Liabilities:</b>                                    |  |  |   |  |
| Foreign currency forward contracts, net                | \$5,957  | \$—  | \$5,957   | \$—  |
| Interest rate swap agreements                          | 13,433   | —  | 13,433  | —  |
| <b>Total</b>   | <b>\$19,390</b>  | <b>\$—</b>   | <b>\$19,390</b>   | <b>\$—</b>   |

The carrying amounts of the Company's financial instruments, consisting of cash and cash equivalents, investment securities, accounts receivable, accounts payable, short-term debt and variable rate long-term debt, approximate their fair value. As of December 29, 2012, the carrying value and fair value of the Company's fixed rate long-term debt were \$965,000 and \$1,040,710, respectively. As of June 30, 2012, the carrying value and fair value of the Company's fixed rate long-term debt were \$965,000 and \$1,050,343, respectively. As of December 31, 2011, the carrying value and fair value of the Company's fixed rate long-term debt were \$965,000 and \$1,039,265, respectively. Fair values were calculated by discounting the future cash flows of the financial instruments to their present value, using interest rates currently offered for borrowings and deposits of similar nature and remaining maturities. There were no transfers between Level 1 and Level 2 during the three and six months ended December 29, 2012. The Company's policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period. As of December 29, 2012, the Company had \$16,059 deposited in funds managed by financial institutions that are designated by management to cover post employment benefits for its Israeli employees. Israeli law generally requires payment of severance upon dismissal of an employee or upon termination of employment in certain other circumstances. These funds are included in the Company's long-term investments reported in other non-current assets. The Company's Level 2 securities values are determined using prices for recently traded financial instruments with similar underlying terms, as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

The Company's investment securities include auction rate securities ("ARS") totaling \$18,000 in par value. ARS are privately placed variable rate debt instruments whose interest rates are reset within a contractual range, approximately every seven to 35 days. Historically, the carrying value of ARS approximated their fair value due to the frequent resetting of the interest rates at auction. With the tightening of the credit markets beginning in calendar 2008, ARS have failed to settle at auction resulting in an illiquid market for these types of securities for an extended period of time. While a market has materialized for these securities, though at a much reduced level than the pre-2008 period, the Company cannot predict when liquidity will fully return to historical levels for these securities. The Company has classified the securities as other non-current assets due to the unpredictable nature and the illiquidity of the market for the securities.

The Company's process to estimate the fair value of these investments includes a review of both data from an independent third-party valuation firm and quotations from secondary market brokers, as well as other factors. The third-party valuation firm has been engaged 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 the estimated fair value is based on significant inputs not observable in the market, the Company has classified these securities as Level 3 in the tables above. The inputs to the discounted cash flow model include market interest rates and a discount factor to reflect the illiquidity of the investments. The discount rates used in the analysis were based on market rates for similar liquid



tax-exempt securities with comparable ratings and maturities. Due to the uncertainty surrounding the timing of future liquidity, the discount rates were adjusted further to reflect the illiquidity of the investments. The Company's valuation is sensitive to market conditions and management's judgment. A 100 basis point increase in the discount rate would result in a decrease in the fair value of approximately \$350. At December 29, 2012, June 30, 2012, and December 31, 2011, these securities were considered as available-for-sale and were recorded at a fair value of \$7,507, \$6,470 and \$6,570, respectively. During the second quarter of fiscal 2013, the Company received an updated estimate for the current fair value of these securities, and based on this estimation and other factors, recorded an unrealized gain of \$1,037, net of tax, in other comprehensive income. In the second quarter of fiscal 2012, the Company recorded an unrealized

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loss of \$933, net of tax, in other comprehensive income related to the ARS. Although the Company continued to earn and collect interest on these investments at the maximum contractual rate, the estimated fair value of ARS cannot be determined by the auction process until liquidity is fully 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 December 29, 2012. The gross realized gains and losses on the sale of ARS are determined using the specific identification method.

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

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

|                                 |               |
|---------------------------------|---------------|
|                                 | Investment    |
| Assets:                         | Securities    |
|                                 | (Level 3)     |
| Balance as of June 30, 2012     | \$6,470       |
| Unrealized gain on ARS          | 1,037         |
| Balance as of December 29, 2012 | \$7,507       |
|                                 | Contingent    |
| Liabilities:                    | Consideration |
|                                 | (Level 3)     |
| Balance as of June 30, 2012     | \$2,900       |
| Payments                        | (2,000 )      |
| Balance as of December 29, 2012 | \$900         |

## NOTE 5 – INVENTORIES

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

|                 |              |           |              |
|-----------------|--------------|-----------|--------------|
|                 | December 29, | June 30,  | December 31, |
|                 | 2012         | 2012      | 2011         |
| Finished goods  | \$287,957    | \$235,593 | \$271,196    |
| Work in process | 172,745      | 154,238   | 157,203      |
| Raw materials   | 178,095      | 157,624   | 152,269      |

|                   |           |           |           |
|-------------------|-----------|-----------|-----------|
| Total inventories | \$638,797 | \$547,455 | \$580,668 |
|-------------------|-----------|-----------|-----------|

As of December 29, 2012, inventories included balances attributable to the acquisitions of Sergeant's and CanAm.

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## NOTE 6 – GOODWILL AND OTHER INTANGIBLE ASSETS

In the first half of fiscal 2013, there were additions to goodwill in the Consumer Healthcare and Rx Pharmaceuticals segments related to the Sergeant's and Cobrek acquisitions, respectively. The Company performs its annual testing for goodwill and indefinite-lived intangible asset impairment at the beginning of the fourth fiscal quarter for all reporting units. Changes in the carrying amount of goodwill, by reportable segment, were as follows:

|                                 | Consumer<br>Healthcare | Nutritionals | Rx<br>Pharmaceuticals | API       | Total      |
|---------------------------------|------------------------|--------------|-----------------------|-----------|------------|
| Balance as of June 30, 2012     | \$ 138,910             | \$ 331,744   | \$ 220,769            | \$ 86,334 | \$ 777,757 |
| Business acquisitions           | 68,229                 | —            | 18,823                | —         | 87,052     |
| Currency translation adjustment | 2,258                  | —            | 3,343                 | 3,894     | 9,495      |
| Balance as of December 29, 2012 | \$ 209,397             | \$ 331,744   | \$ 242,935            | \$ 90,228 | \$ 874,304 |

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

|   | December 29, 2012 |                             | June 30, 2012 |                             | December 31, 2011 |                             |
|---|-------------------|-----------------------------|---------------|-----------------------------|-------------------|-----------------------------|
|   | Gross             | Accumulated<br>Amortization | Gross         | Accumulated<br>Amortization | Gross             | Accumulated<br>Amortization |
| Amortizable intangibles:                                    |                   |                             |               |                             |                   |                             |
| Developed product technology/formulation and product rights | \$ 664,914        | \$ 169,375                  | \$ 542,094    | \$ 140,489                  | \$ 543,440        | \$ 117,668                  |
| Customer relationships                                      | 352,655           | 62,107                      | 341,363       | 50,757                      | 329,126           | 41,021                      |
| Distribution, license and supply agreements                 | 77,970            | 27,075                      | 52,609        | 23,686                      | 52,764            | 21,496                      |
| Non-compete agreements                                      | 9,172             | 4,772                       | 7,804         | 3,778                       | 6,241             | 2,986                       |
| Trademarks  | 4,994             | 710                         | 4,797         | 704                         | 4,891             | 696                         |
| Total   | 1,109,705         | 264,039                     | 948,667       | 219,414                     | 936,462           | 183,867                     |
| Non-amortizable intangibles:                                |                   |                             |               |                             |                   |                             |
| In-process research and development                         | 35,000            | —                           | 35,000        | —                           | 35,000            | —                           |
| Trade names and trademarks                                  | 53,500            | —                           | 7,365         | —                           | 6,591             | —                           |
| Total other intangible assets                               | \$ 1,198,205      | \$ 264,039                  | \$ 991,032    | \$ 219,414                  | \$ 978,053        | \$ 183,867                  |

As of December 29, 2012, other intangible assets included additions made during the second quarter of fiscal 2013 attributable to the Sergeant's and Cobrek acquisitions. 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 \$40,346 and \$37,781 for the first half of fiscal 2013 and 2012, respectively, for intangible assets subject to amortization.

Estimated future amortization expense includes the additional amortization related to recently acquired intangible assets currently subject to amortization. The estimated amortization expense for each of the following five years is as follows:

| Fiscal Year         | Amount   |
|---------------------|----------|
| 2013 <sup>(1)</sup> | \$48,000 |
| 2014                | 91,900   |
| 2015                | 90,700   |

|      |        |
|------|--------|
| 2016 | 88,700 |
| 2017 | 86,200 |

<sup>(1)</sup> Reflects remaining six months of fiscal 2013.

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## NOTE 7 – INDEBTEDNESS

Total borrowings outstanding are summarized as follows:

|                                       | December 29,<br>2012 | June 30,<br>2012 | December 31,<br>2011 |
|---------------------------------------|----------------------|------------------|----------------------|
| Short-term debt:                      |                      |                  |                      |
| Foreign line of credit                | \$2,648              | \$90             | \$—                  |
| Current portion of long-term debt:    |                      |                  |                      |
| Term loans                            | 40,000               | 40,000           | 40,000               |
| Total                                 | 42,648               | 40,090           | 40,000               |
| Long-term debt, less current portion: |                      |                  |                      |
| Term loans                            | 360,000              | 360,000          | 485,000              |
| Senior notes                          | 965,000              | 965,000          | 965,000              |
| Other                                 | 4,886                | 4,235            | 2,546                |
| Total                                 | 1,329,886            | 1,329,235        | 1,452,546            |
| Total debt                            | \$1,372,534          | \$1,369,325      | \$1,492,546          |

The Company has revolving loan and term loan commitments of \$400,000 each, pursuant to the Credit Agreement dated as of October 26, 2011 with JPMorgan Chase Bank, N.A., as Administrative Agent; Bank of America, N.A. and Morgan Stanley Senior Funding, Inc., as Syndication Agents; and certain other participant banks (the "2011 Credit Agreement"). On November 5, 2012, in accordance with the 2011 Credit Agreement, the Company made a \$40,000 scheduled repayment of the term loan commitment. Subsequently, in conjunction with the amendment to the 2011 Credit Agreement described in the paragraph below, the Company restored the aggregate term loan commitments to the original \$400,000. The loans bear interest, at the election of the Company, at either the Alternate Base Rate plus the Applicable Margin or the Adjusted LIBO Rate plus the Applicable Margin, as specified and defined in the 2011 Credit Agreement. The Applicable Margin is based on the Company's Leverage Ratio from time to time, as defined in the 2011 Credit Agreement. In the first quarter of fiscal 2013, the Company amended the 2011 Credit Agreement to provide flexibility to the Company in managing the capital structures of certain immaterial subsidiaries. This amendment did not change the interest rate, term or amount of the revolving loan and term loan commitments.

On November 20, 2012, the 2011 Credit Agreement was further amended to: (i) provide that guaranties and collateral required under the 2011 Credit Agreement will be released by the lenders upon the Company attaining index debt ratings of BBB- from Standard and Poor's and Baa3 from Moody's, or higher, and if the guaranties and collateral have been so released, to provide for their reinstatement for the benefit of the lenders upon the Company receiving index debt ratings of BB+ from Standard and Poor's and Ba1 from Moody's, or lower; (ii) extend the final maturity date of the term loan and any revolving loans under the 2011 Credit Agreement from November 3, 2016, to November 3, 2017, with no changes to loan pricing or other terms and conditions except the triggering events for release and reinstatement of guaranties and collateral as described above; and (iii) restore the aggregate term loan commitments to the original \$400,000.

The Company's India subsidiary has a term loan with a maximum limit of approximately \$5,000, subject to foreign currency fluctuations between the Indian rupee and the U.S. dollar. Subsequent to the end of the second quarter of fiscal 2013, this loan was amended to increase the maximum limit to approximately \$5,800, subject to foreign currency fluctuations between the Indian rupee and the U.S. dollar. The interest rate on this facility was 11.5% as of December 29, 2012. The Company's India subsidiary had \$4,886, \$4,235 and \$2,546, outstanding on this line as of December 29, 2012, June 30, 2012, and December 31, 2011, respectively.

The Company's India subsidiary has a short-term credit line in an aggregate amount not to exceed approximately \$3,800, subject to foreign currency fluctuations between the Indian rupee and the U.S. dollar. Subsequent to the end of the second quarter of fiscal 2013, this credit line was amended to increase the maximum limit to approximately \$6,400, subject to foreign currency fluctuations between the Indian rupee and the U.S. dollar. The interest rate on this facility was 11.5% as of both December 29, 2012 and June 30, 2012. The credit line expires after 180 days but can be extended by mutual agreement of the parties. The Company's India subsidiary had \$2,648 and \$90 outstanding on this line of credit as of December 29, 2012 and June 30, 2012, respectively, and no borrowings outstanding on this line of credit as of December 31, 2011.

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").  
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Company renewed the Securitization Program most recently on June 13, 2011, with Bank of America, as Agent, and Wells Fargo Bank, National Association ("Wells Fargo") and PNC Bank, National Association ("PNC") as Managing Agents (together, the "Committed Investors").

The Securitization Program is a three-year program, expiring June 13, 2014. During the second quarter of fiscal 2013, the Company amended the terms of the Securitization Program effectively increasing the amount the Company can borrow from \$185,000 to \$200,000. Under the terms of the Securitization Program, the subsidiaries sell certain eligible trade accounts receivables to a wholly owned bankruptcy remote special purpose entity ("SPE"), Perrigo Receivables, LLC. The Company has retained servicing responsibility for those receivables. The SPE will then transfer an interest in the receivables to the Committed Investors. Under the terms of the Securitization Program, Bank of America, Wells Fargo and PNC have committed \$110,000, \$60,000 and \$30,000, respectively, effectively allowing the Company to borrow up to a total amount of \$200,000, subject to a Maximum Net Investment calculation as defined in the agreement. At December 29, 2012, \$200,000 was available under this calculation. The interest rate on any borrowings is based on a 30-day LIBOR plus 0.45%. In addition, a facility fee of 0.45% is applied to the \$200,000 commitment whether borrowed or undrawn. Under the terms of the Securitization Program, the Company may elect to have the entire amount or any portion of the facility unutilized.

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

## NOTE 8 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

All derivative instruments are managed on a consolidated basis to efficiently net exposures and thus take advantage of any natural offsets. The absolute value of the notional amounts of derivative contracts for the Company approximated \$464,400, \$415,600 and \$422,700 at December 29, 2012, June 30, 2012, and December 31, 2011, respectively. Gains and losses related to the derivative instruments are expected to be largely offset by gains and losses on the original underlying asset or liability. The Company does not use derivative financial instruments for speculative purposes.

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

### Interest Rate Hedging

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



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

In the first quarter of fiscal 2012, the Company entered into interest rate swap agreements with a notional value of \$175,000 to hedge the exposure to the possible rise in the benchmark interest rate prior to the issuance of the senior notes consisting of \$75,000, 4.27% Series 2011-A senior notes, due September 30, 2021 ("Series 2011-A Notes"); \$175,000, 4.52% Series 2011-B senior notes, due December 15, 2023 ("Series 2011-B Notes"); and \$100,000, 4.67% Series 2011-C senior notes, due September 30, 2026 ("Series 2011-C Notes", and together with the Series 2011-A Notes and the Series 2011-B Notes, the "Series 2011 Notes") on September 30, 2011. The interest rate swaps, which the Company designated as cash flow hedges, were settled in the first quarter of fiscal 2012 upon entering into a definitive agreement for the issuance of an aggregate of

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\$175,000 principal amount of the Series 2011 Notes for a cumulative after-tax loss of \$762, which was recorded in OCI and will be amortized to earnings as an accretion to interest expense over the first 10 years of the life of those notes. The Company expects to recognize approximately \$76 in after-tax earnings as a result of the swap agreements over the next 12 months.

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

Foreign Currency Contracts

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

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

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

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The effects of derivative instruments on the Company's condensed consolidated balance sheets as of December 29, 2012, June 30, 2012, and December 31, 2011, and on the Company's income and OCI for the three and six months ended December 29, 2012, and December 31, 2011, were as follows (amounts presented exclude any income tax effects):

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

|                                    |                               | Asset Derivatives          |                      |                  |                      |
|------------------------------------|-------------------------------|----------------------------|----------------------|------------------|----------------------|
|                                    |                               | Balance Sheet Presentation | Fair Value           |                  |                      |
|                                    |                               |                            | December 29,<br>2012 | June 30,<br>2012 | December 31,<br>2011 |
| Hedging derivatives:               |                               |                            |                      |                  |                      |
| Foreign currency forward contracts | Other current assets          |                            | \$6,712              | \$578            | \$1,015              |
| Total hedging derivatives          |                               |                            | \$6,712              | \$578            | \$1,015              |
| Non-hedging derivatives:           |                               |                            |                      |                  |                      |
| Foreign currency forward contracts | Other current assets          |                            | \$1,063              | \$54             | \$31                 |
| Total non-hedging derivatives      |                               |                            | \$1,063              | \$54             | \$31                 |
|                                    |                               | Liability Derivatives      |                      |                  |                      |
|                                    |                               | Balance Sheet Presentation | Fair Value           |                  |                      |
|                                    |                               |                            | December 29,<br>2012 | June 30,<br>2012 | December 31,<br>2011 |
| Hedging derivatives:               |                               |                            |                      |                  |                      |
| Foreign currency forward contracts | Accrued liabilities           |                            | \$264                | \$5,585          | \$6,219              |
| Interest rate swap agreements      | Other non-current liabilities |                            | 13,819               | 14,706           | 13,433               |
| Total hedging derivatives          |                               |                            | \$14,083             | \$20,291         | \$19,652             |
| Non-hedging derivatives:           |                               |                            |                      |                  |                      |
| Foreign currency forward contracts | Accrued liabilities           |                            | \$19                 | \$614            | \$784                |
| Total non-hedging derivatives      |                               |                            | \$19                 | \$614            | \$784                |

Effects of Derivative Instruments on Income and OCI for the three months ended December 29, 2012, and December 31, 2011

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain/(Loss) Recognized in OCI on Derivative (Effective Portion) |                   | Location and Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Location and Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) |                   |                   |                   |     |
|--|---|-------------------|--|--|-------------------|-------------------|-------------------|-----|
|  | December 29, 2012   | December 31, 2011 |  | December 29, 2012  | December 31, 2011 | December 29, 2012 | December 31, 2011 |     |
| T-Locks  | \$—   | \$—               | Interest, net  | \$ 91  | \$91              | Interest, net     | \$—               | \$— |
| Interest rate swap agreements                  | 1,300   | 940               | Interest, net  | (1,229 )   | (1,269 )          | Interest, net     | —                 | —   |
| Foreign currency                               | 7,013   | (3,859 )          | Net sales  | (186 )   | 262               | Net sales         | —                 | —   |

forward  
contracts

|       |         |           |                |        |   |           |               |           |   |        |       |
|-------|---------|-----------|----------------|--------|---|-----------|---------------|-----------|---|--------|-------|
|       |         |           | Cost of sales  | (1,429 | ) | 825       | Cost of sales | (74       | ) | —      |       |
|       |         |           | Interest, net  | 21     |   | 24        |               |           |   |        |       |
|       |         |           | Other income   |        |   |           |               |           |   |        |       |
|       |         |           | (expense), net | 1,592  |   | (1,571    | )             |           |   |        |       |
| Total | \$8,313 | \$ (2,919 | )              |        |   | \$ (1,140 | )             | \$ (1,638 | ) | \$ (74 | ) \$— |

The Company also has forward foreign currency contracts that are not designated as hedging instruments and recognizes the gain/(loss) associated with these contracts in other income (expense), net. For the three months ended December 29, 2012, and December 31, 2011, the Company recorded a gain of \$612 and a loss of \$1,209, respectively, related to these

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

Effects of Derivative Instruments on Income and OCI for the six months ended December 29, 2012, and December 31, 2011

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain/(Loss) Recognized in OCI on Derivative (Effective Portion) |                   | Location and Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Location and Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) |                   |               |         |       |
|--|---|-------------------|--|--|-------------------|---------------|---------|-------|
|  | December 29, 2012   | December 31, 2011 |  | December 29, 2012  | December 31, 2011 |               |         |       |
| T-Locks  | \$—   | \$—               | Interest, net  | \$ 182   | \$182             | Interest, net | \$—     | \$—   |
| Interest rate swap agreements                  | 900   | (5,885 )          | Interest, net  | (2,443 )   | (2,090 )          | Interest, net | —       | —     |
| Foreign currency forward contracts             | 6,941   | (8,128 )          | Net sales  | (270 )   | (151 )            | Net sales     | —       | (20 ) |
|  |   |                   | Cost of sales  | (3,104 )   | 2,354             | Cost of sales | (65 )   | 687   |
|  |   |                   | Interest, net  | 65   | 34                |               |         |       |
|  |   |                   | Other income (expense), net  | 1,141  | (2,406 )          |               |         |       |
| Total  | \$7,841   | \$ (14,013 )      |  | \$ (4,429 )  | \$(2,077 )        |               | \$(65 ) | \$667 |

The Company also has forward foreign currency contracts that are not designated as hedging instruments and recognizes the gain/(loss) associated with these contracts in other income (expense), net. For the six months ended December 29, 2012, and December 31, 2011, the Company recorded a gain of \$366 and a loss of \$2,499, respectively, related to these contracts. The net hedge result offsets the revaluation of the underlying balance sheet exposure, which is also recorded in other income (expense), net.

## NOTE 9 – SHAREHOLDERS' EQUITY

The Company issued 138 and 103 shares related to the exercise and vesting of share-based compensation during the second quarter of fiscal 2013 and 2012, respectively. Year-to-date, the Company issued 605 and 602 shares related to the exercise and vesting of share-based compensation during fiscal 2013 and 2012, respectively.

The Company does not currently have a common stock repurchase program, but does repurchase shares in private party transactions from time to time. Private party transactions are shares repurchased in connection with the vesting of restricted stock awards to satisfy employees' minimum statutory tax withholding obligations. The Company did not repurchase any shares in private party transactions during the second quarter of fiscal 2013. During the second quarter of fiscal 2012, the Company repurchased 1 share of its common stock for \$55 in private party transactions. During the six months ended December 29, 2012, the Company repurchased 110 shares of its common stock for \$12,159 in private party transactions. During the six months ended December 31, 2011, the Company repurchased 88 shares of its common stock for \$7,954 in private party transactions. All common stock repurchased by the Company becomes authorized but unissued stock and is available for reissuance in the future for general corporate purposes.

NOTE 10 – INCOME TAXES

The effective tax rate on income was 27.1% and 30.9% for the second quarter of fiscal 2013 and 2012, respectively. The effective tax rate on income was 26.1% and 27.0% for the first six months of fiscal 2013 and 2012, respectively. The effective tax rate was favorably affected by a reduction in the reserves for uncertain tax liabilities, recorded in accordance with ASC Topic 740 "Income Taxes", in the amount of \$7,452 and \$7,064 for the first six months of fiscal 2013 and 2012, respectively, related to various audit resolutions and statute expirations. Foreign source income before tax for the second quarter of fiscal 2013 was 38% of pre-tax earnings, up from 34% in the same period of fiscal 2012. Foreign source income before tax for the first six months of fiscal 2013 was 39% of pre-tax earnings, down from 44% in the same period for fiscal 2012.

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In December 2011, Israel rescinded previously passed legislation that would have reduced corporate tax rates to 22% for 2012, 21% for 2013, 20% for 2014 and 18% for 2015 on income generated by Israeli entities. This change has resulted in a current corporate statutory rate of 25% in Israel for non-exempt entities.

The Company's tax rate is subject to adjustment over the balance of the fiscal year due to, among other things, income tax rate changes by governments; the jurisdictions in which the Company's profits are determined to be earned and taxed; changes in the valuation of the Company's deferred tax assets and liabilities; adjustments to estimated taxes upon finalization of various tax returns; adjustments to the Company's interpretation of transfer pricing standards, changes in available tax credits, grants and other incentives; changes in stock-based compensation expense; changes in tax laws or the interpretation of such tax laws (for example, proposals for fundamental U.S. international tax reform); changes in U.S. generally accepted accounting principles; expiration of or the inability to renew tax rulings or tax holiday incentives; and the repatriation of non-U.S. earnings with respect to which the Company has not previously provided for U.S. taxes.

The total amount of unrecognized tax benefits was \$111,952 and \$108,520 as of December 29, 2012 and June 30, 2012, respectively. The total amount accrued for interest and penalties in the liability for uncertain tax positions was \$21,900 and \$20,005 as of December 29, 2012 and June 30, 2012, respectively.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Eltroxin

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

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

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

Securities Litigation

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



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

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

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

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

On November 21, 2011, the defendants answered the second amended complaint, denying all allegations of wrongdoing and asserting numerous defenses. On September 7, 2012, the Court, pursuant to a stipulation, dismissed all claims against Joseph Papa and Judy Brown.

Although the Company believes that it has meritorious defenses to this lawsuit, the Company engaged in settlement discussions with counsel for the Co-Lead Plaintiffs in an effort to move the matter to a quicker resolution and avoid the costs and distractions of protracted litigation. As a result of these discussions, the Company and the Co-Lead Plaintiffs reached an agreement in principle to settle the case, subject to Court approval. On December 27, 2012, the Company and the Co-Lead Plaintiffs filed a Stipulation of Settlement and a motion for preliminary approval of the proposed class action settlement. On January 28, 2013, the Court preliminarily approved the proposed class action settlement and ordered that notice of the proposed settlement be provided to the members of the proposed shareholder class and set a deadline for class members either to object to the settlement or to exclude themselves (or "opt out") of the settlement class. The Court also scheduled a fairness hearing for May 9, 2013 to determine whether the settlement is fair, reasonable and adequate and thus merits final approval. There can be no assurance that the proposed settlement will be approved by the Court. Regardless of whether the proposed settlement is approved, the Company believes the

resolution of this matter will not have a material adverse effect on its financial condition and results of operations as reported in the accompanying consolidated financial statements.

Ramat Hovav

In March and June of 2007, lawsuits were filed by three separate groups against both the State of Israel and the Council of Ramat Hovav in connection with waste disposal and pollution from several companies, including the Company, that have operations in the Ramat Hovav region of Israel. These lawsuits were subsequently consolidated into a single proceeding in the District Court of Beer-Sheva. The Council of Ramat Hovav, in June 2008, and the State of Israel, in November 2008, asserted third party claims against several companies, including the Company. The pleadings allege a variety of personal injuries arising out of the alleged environmental pollution. Neither the plaintiffs nor the third-party claimants were required to specify a maximum amount of damages, but the pleadings allege damages in excess of \$72,500, subject to foreign currency fluctuations between the Israeli shekel and the U.S. dollar. On January 9, 2013, the District Court of Beer-Sheva ruled in favor

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of the Company. However, the claimants have 45 days from the date of the ruling to appeal the decision. While the Company intends to vigorously defend against these claims if appealed, the Company cannot reasonably predict at this time the outcome or the liability, if any, associated with these claims.

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

## NOTE 12 – SEGMENT INFORMATION

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

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

|  | Consumer<br>Healthcare | Nutritionals | Rx<br>Pharmaceuticals | API       | Other     | Unallocated<br>expenses | Total       |
|--|------------------------|--------------|-----------------------|-----------|-----------|-------------------------|-------------|
| Three Months<br>Ended December<br>29, 2012 |                        |              |                       |           |           |                         |             |
| Net sales                                  | \$539,288              | \$121,938    | \$162,541             | \$40,854  | \$18,338  | \$—                     | \$882,959   |
| Operating income                           | \$86,078               | \$7,160      | \$64,059              | \$13,820  | \$663     | \$(7,923)               | \$163,857   |
| Amortization of<br>intangibles             | \$4,870                | \$7,310      | \$8,457               | \$481     | \$407     | \$—                     | \$21,525    |
| Total assets                               | \$1,771,480            | \$960,652    | \$1,184,864           | \$275,428 | \$101,912 | \$—                     | \$4,294,336 |
| Three Months<br>Ended December<br>31, 2011 |                        |              |                       |           |           |                         |             |
| Net sales                                  | \$471,277              | \$128,147    | \$177,196             | \$42,752  | \$18,798  | \$—                     | \$838,170   |
| Operating income                           | \$82,250               | \$4,552      | \$69,974              | \$11,693  | \$924     | \$(8,725)               | \$160,668   |
| Amortization of<br>intangibles             | \$2,220                | \$6,637      | \$7,969               | \$496     | \$438     | \$—                     | \$17,760    |
| Total assets                               | \$1,575,062            | \$962,947    | \$1,033,577           | \$255,284 | \$115,684 | \$—                     | \$3,942,554 |

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|                                | Consumer<br>Healthcare | Nutritionals | Rx<br>Pharmaceuticals | API      | Other    | Unallocated<br>expenses | Total       |
|--------------------------------|------------------------|--------------|-----------------------|----------|----------|-------------------------|-------------|
| Six Months Ended               |                        |              |                       |          |          |                         |             |
| December 31, 2012              |                        |              |                       |          |          |                         |             |
| Net sales                      | \$989,704              | \$225,361    | \$325,483             | \$77,273 | \$34,948 | \$—                     | \$1,652,769 |
| Operating income               | \$165,366              | \$11,043     | \$132,563             | \$27,139 | \$1,088  | \$(16,769 )             | \$320,430   |
| Amortization of<br>intangibles | \$7,133                | \$14,610     | \$16,859              | \$944    | \$800    | \$—                     | \$40,346    |
| Six Months Ended               |                        |              |                       |          |          |                         |             |
| December 31, 2011              |                        |              |                       |          |          |                         |             |
| Net sales                      | \$882,958              | \$248,008    | \$304,823             | \$90,396 | \$37,280 | \$—                     | \$1,563,465 |
| Operating income               | \$151,439              | \$11,793     | \$94,459              | \$25,908 | \$1,209  | \$(22,588 )             | \$262,220   |
| Amortization of<br>intangibles | \$4,465                | \$16,102     | \$15,322              | \$1,017  | \$875    | \$—                     | \$37,781    |

## NOTE 13 – RESTRUCTURING

In the third quarter of fiscal 2012, the Company made the decision to restructure its workforce and cease all remaining manufacturing production at its Florida facility. This restructuring was completed at the end of the fourth quarter of fiscal 2012. This facility manufactured the Company's oral electrolyte solution products that are part of the Nutritionals reporting segment. In connection with the restructuring, the Company transitioned production to a more efficient, service-oriented supply chain. As a result of this restructuring plan, the Company determined that the carrying value of certain fixed assets at the location was not fully recoverable. Accordingly, the Company incurred a non-cash impairment charge of \$6,298 and \$148 in its Nutritionals segment in the third and fourth quarters of fiscal 2012, respectively, to reflect the difference between carrying value and the estimated fair value of the affected assets. In addition, the Company recorded a charge of \$783 and \$965 in the third and fourth quarters of fiscal 2012, respectively, related to employee termination benefits for 141 employees. The Company does not expect to incur any additional charges related to this restructuring plan. The activity of the restructuring reserve is detailed in the following table:

|                              | Fiscal 2012 Restructuring Employee<br>Termination |
|------------------------------|---|
| Balance at March 31, 2012    | \$783   |
| Additions                    | 965   |
| Payments                     | (87 )   |
| Balance at June 30, 2012     | 1,661   |
| Payments                     | (1,643 )  |
| Balance at December 29, 2012 | \$18  |

## NOTE 14 – COLLABORATION AGREEMENT

The Company actively partners with other pharmaceutical companies to collaboratively develop, manufacture and market certain products or groups of products. These types of agreements are not uncommon in the pharmaceutical industry. The Company may choose to enter into these types of agreements to, among other things, leverage its or others' scientific research and development expertise or utilize its extensive marketing and distribution resources. Terms of the various collaboration agreements may require the Company to make or receive milestone payments upon the achievement of certain product research and development objectives and pay or receive royalties on future sale, if any, of commercial products resulting from the collaboration. Milestone payments and up-front payments made are generally recorded as research and development expenses if the payments relate to drug candidates that have not yet received regulatory approval. Milestone payments and up-front payments made related to approved drugs will

generally be capitalized and amortized to cost of goods sold over the economic life of the product. Royalties received are generally reflected as revenues and royalties paid are generally reflected as cost of goods sold. The Company has entered into a number of collaboration agreements in the ordinary course of business. Although the Company does not consider these arrangements to be material, the following is a brief description of a notable agreement entered into during fiscal 2013:

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In December 2012, the Company entered into a joint development agreement with another generic pharmaceutical company pursuant to which the Company is to provide research and development and future manufacturing services for a generic version of a specified prescription pharmaceutical. The Company is entitled to receive various milestone payments throughout the development period, which will be recognized in accordance with the milestone method. During the second quarter of fiscal 2013, the Company recognized revenue of \$750 upon completion of a milestone under this agreement. The Company is entitled to receive additional individual milestone payments ranging from \$500 to \$2,000 for achieving other specified milestones including but not limited to completion of bioequivalence studies, FDA acceptance of the ANDA, and FDA approval of the ANDA. If the product is approved, the Company may receive combined total milestone payments ranging from \$3,750 to \$5,500 depending upon various market conditions at the time of generic market formation. Also in accordance with the agreement, the parties will share in development costs and future profits associated with the manufacture and sale of the generic prescription pharmaceutical product.

NOTE 15 – SUBSEQUENT EVENT

On February 1, 2013, the Company announced the signing of a definitive agreement to acquire 100% of the shares of privately-held Velcera, Inc. ("Velcera") for approximately \$160,000 in cash. Headquartered in Yardley, Pennsylvania, Velcera, through its FidoPharm subsidiary, is a leading companion pet health product company committed to providing consumers with best-in-class companion pet health products that contain the same active ingredients as branded veterinary products, but at a significantly lower cost. FidoPharm products, including the PetArmor® flea and tick products, are available at major retailers nationwide, offering consumers the benefits of convenience and cost savings to ensure the highest quality care for their pets. The acquisition, which is expected to close during calendar 2013, will expand the Company's Consumer Healthcare pet healthcare category.

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Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
SECOND QUARTER OF FISCAL YEARS 2013 AND 2012  
(in thousands, except per share amounts)

EXECUTIVE OVERVIEW

Perrigo Company (the "Company") traces its history back to 1887. What was started as a small local proprietor selling medicinals to regional grocers has evolved into a leading global pharmaceutical company that manufactures and distributes more than 45 billion oral solid doses and more than two billion liquid doses, as well as dozens of other product forms, each year. The Company's mission is to offer uncompromised "quality, affordable healthcare products", and it does so across a wide variety of product categories primarily in the United States ("U.S."), United Kingdom ("U.K."), Mexico, Israel and Australia, as well as certain other markets throughout the world, including Canada, China and Latin America.

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

The Company's fiscal year is a 52- or 53-week period, which ends the Saturday on or about June 30. An extra week is required approximately every six years in order to re-align the Company's fiscal reporting dates with the actual calendar months. Fiscal 2013 is a 52-week year and included 13 and 26 weeks of operations in the second quarter and year-to-date results, respectively. Fiscal 2012 was a 53-week year and included 14 and 27 weeks of operations in the second quarter and year-to-date results, respectively. Using a weekly average, the extra week of operations is estimated to have contributed approximately 7% and 3.5% in net sales for the second quarter and year-to-date results of fiscal 2012, respectively. This factor should be considered when comparing the Company's second quarter and year-to-date fiscal 2013 financial results to the prior year periods.

Segments – The Company has four reportable segments, aligned primarily by type of product: Consumer Healthcare, Nutritionals, Rx Pharmaceuticals and API. In addition, the Company has an Other category that consists of the Israel Pharmaceutical and Diagnostic Products operating segment, which does not individually meet the quantitative thresholds required to be a separately reportable segment.

¶The Consumer Healthcare segment is the world's largest store brand manufacturer of over-the-counter ("OTC") pharmaceutical products. This business markets products that are comparable in quality and effectiveness to national brand products. Major product categories include analgesics, cough/cold/allergy/sinus, gastrointestinal, smoking cessation, and secondary product categories that include feminine hygiene, diabetes care and dermatological care. In addition, the recent acquisition of Sergeant's Pet Care Products, Inc. ("Sergeant's"), which closed in the Company's second fiscal quarter, expanded the Company's product portfolio into the pet healthcare category. The cost to the retailer of a store brand product is significantly lower than that of a comparable nationally advertised brand-name product. Generally the retailers' dollar profit per unit of store brand product is greater than the dollar profit per unit of the comparable national brand product. The retailer, therefore, can price a store brand product below the competing national brand product and realize a greater profit margin. The consumer benefits by receiving a high quality product at a price below the comparable national brand product. Therefore, the Company's business model saves consumers on their annual healthcare spending. The Company, one of the original architects of private label pharmaceuticals, is

the market leader for consumer healthcare products in many of the geographies where it currently competes – the U.S., U.K., and Mexico – and is developing a leadership position in Australia. The Company's market share of OTC store brand products has grown in recent years as new products, retailer efforts to increase consumer education and awareness, and economic events have directed consumers to the value of store brand product offerings.

The Nutritionals segment develops, manufactures, markets and distributes store brand infant and toddler formula products, infant and toddler foods, vitamin, mineral and dietary supplement ("VMS") products, and oral electrolyte solution products to retailers and consumers primarily in the U.S., Canada, Mexico and China. Similar to the Consumer Healthcare segment, this business markets products that are comparable in quality and effectiveness to the national brand products. The cost to the retailer of a store brand product is significantly lower than that of a



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comparable nationally advertised brand-name product. The retailer, therefore, can price a store brand product below the competing national brand product and realize a greater profit margin. All infant formulas sold in the U.S. are subject to the same regulations governing manufacturing and ingredients under the Infant Formula Act of 1980, as amended. Store brands, which are value priced and offer substantial savings to consumers, must meet the same U.S. Food and Drug Administration ("FDA") requirements as the national brands.

The Rx Pharmaceuticals segment develops, manufactures and markets a portfolio of generic prescription ("Rx") drugs for the U.S. market. The Company defines this portfolio as predominantly "extended topical" and specialty as it encompasses a broad array of topical dosage forms such as creams, ointments, lotions, gels, shampoos, foams, suppositories, sprays, liquids, suspensions, solutions and powders. The portfolio also includes select controlled substances, injectables, hormones, oral liquids and oral solid dosage forms. The strategy in the Rx Pharmaceuticals segment is to be the first to market with those new products that are exposed to less competition because they have formulations that are more difficult and costly to develop and launch (e.g., extended topicals or products containing controlled substances). In addition, the Rx Pharmaceuticals segment offers OTC products through the prescription channel (referred to as "ORx®" marketing). ORx® products are OTC products that are available for pharmacy fulfillment and healthcare reimbursement when prescribed by a physician. The Company offers over 100 ORx® products that are reimbursable through many health plans and Medicaid and Medicare programs. ORx® products offer consumers safe and effective remedies that provide an affordable alternative to the higher out-of-pocket costs of traditional OTC products.

The API segment develops, manufactures and markets active pharmaceutical ingredients ("API") used worldwide by the generic drug industry and branded pharmaceutical companies. API development is focused on the synthesis of less common molecules for the U.S., European and other international markets. The Company is also focusing development activities on the synthesis of molecules for use in its own OTC and Rx pipeline products. This segment is undergoing a strategic platform transformation, moving certain production from Israel to the acquired API manufacturing facility in India to allow for lower cost production and to create space for other, more complex production in Israel.

In addition to general management and strategic leadership, each business segment has its own sales and marketing teams focused on servicing the specific requirements of its customer base. Each of these business segments share Research & Development, Supply Chain, Information Technology, Finance, Human Resources, Legal and Quality services, all of which are directed out of the Company's headquarters in Allegan, Michigan.

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

Seasonality – The Company's sales of OTC pharmaceutical products are subject to the seasonal demands for cough/cold/flu and allergy products. In addition, with the Sergeant's acquisition discussed below under the heading Events Impacting Future Results, the Company's pet healthcare products are subject to the seasonal demand for flea and tick products, which typically peaks during the warmer weather months. Accordingly, operating results for the six months ended December 29, 2012, are not necessarily indicative of the results that may be expected for a full fiscal year.

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## Consolidated Results

|                                 | Three Months Ended   |                      | Increase/(Decrease) | % Change |    |
|---------------------------------|----------------------|----------------------|---------------------|----------|----|
|                                 | December 29,<br>2012 | December 31,<br>2011 |                     |          |    |
| Net sales                       | \$882,959            | \$838,170            | \$44,789            | 5.3      | %  |
| Gross profit                    | \$307,165            | \$294,875            | \$12,290            | 4.2      | %  |
| Gross profit %                  | 34.8                 | % 35.2               | % (0.4              | )%       |    |
| Operating expenses              | \$143,308            | \$134,207            | \$9,101             | 6.8      | %  |
| Operating expenses %            | 16.2                 | % 16.0               | % 0.2               | %        |    |
| Operating income                | \$163,857            | \$160,668            | \$3,189             | 2.0      | %  |
| Operating income %              | 18.6                 | % 19.2               | % (0.6              | )%       |    |
| Interest and other expense, net | \$18,439             | \$16,393             | \$2,046             | 12.5     | %  |
| Income taxes                    | \$39,463             | \$44,536             | \$(5,073)           | (11.4)   | )% |
| Net income                      | \$105,955            | \$99,739             | \$6,216             | 6.2      | %  |

Current Quarter Results – The increase in net sales for the second quarter of fiscal 2013 was driven primarily by \$33,800 of net sales attributable to the Sergeant's and CanAm Care, LLC ("CanAm") acquisitions, new product sales of \$25,000 and an increase in sales volumes of existing products in the Consumer Healthcare segment. These increases were partially offset by the impact of the extra week of operations experienced in the second quarter of fiscal 2012 and lower sales volumes of existing products in the Rx Pharmaceuticals segment.

Fiscal 2013 gross profit was negatively impacted by the one-time charge to cost of sales of \$7,700 as a result of the step-up in value of inventory acquired and sold during the second quarter related to the Sergeant's acquisition, and operating expenses included \$1,500 of severance costs related to the Cobrek acquisition.

Fiscal 2013 other expense included a loss of \$3,049 recognized in conjunction with the Cobrek acquisition as a result of remeasuring the Company's initial 18.5% noncontrolling interest to fair value.

|                                 | Six Months Ended     |                      | Increase/(Decrease) | % Change |   |
|---------------------------------|----------------------|----------------------|---------------------|----------|---|
|                                 | December 29,<br>2012 | December 31,<br>2011 |                     |          |   |
| Net sales                       | \$1,652,769          | \$1,563,465          | \$89,304            | 5.7      | % |
| Gross profit                    | \$592,434            | \$522,454            | \$69,980            | 13.4     | % |
| Gross profit %                  | 35.8                 | % 33.4               | % 2.4               | %        |   |
| Operating expenses              | \$272,004            | \$260,234            | \$11,770            | 4.5      | % |
| Operating expenses %            | 16.5                 | % 16.6               | % (0.1              | )%       |   |
| Operating income                | \$320,430            | \$262,220            | \$58,210            | 22.2     | % |
| Operating income %              | 19.4                 | % 16.8               | % 2.6               | %        |   |
| Interest and other expense, net | \$34,230             | \$29,192             | \$5,038             | 17.3     | % |
| Income taxes                    | \$74,665             | \$62,831             | \$11,834            | 18.8     | % |
| Net income                      | \$211,535            | \$170,197            | \$41,338            | 24.3     | % |

Current Year-to-Date Results – The increase in year-to-date net sales was driven primarily by \$62,100 of net sales attributable to the Sergeant's, Paddock Laboratories, Inc. ("Paddock") and CanAm acquisitions and new product sales of \$50,900, partially offset by decreases in sales of certain existing products in the Nutritional and API segments and the impact of the extra week of operations experienced in the second quarter of fiscal 2012.

Gross profit for fiscal 2012 was negatively impacted by the one-time charge to cost of sales of \$27,179 as a result of the step-up in value of inventory acquired and sold during the first quarter of fiscal 2012 related to the Paddock acquisition, which was larger than the one-time charge to cost of sales of \$7,700 as a result of the step-up in value of

inventory acquired and sold during the second quarter of fiscal 2013 related to the Sergeant's acquisition. The gross profit percentage for fiscal 2013 was also positively impacted by the API commercial agreement noted below under the API operating results section. In

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addition to the inventory step-up charges previously discussed, the Company recorded \$9,400 of acquisition and severance charges related to the Paddock acquisition during the first half of fiscal 2012, and recorded \$1,500 of severance costs related to the Cobrek acquisition during the second quarter of fiscal 2013.

Fiscal 2013 other expense included a loss of \$3,049 recognized in conjunction with the Cobrek acquisition as a result of remeasuring the Company's initial 18.5% noncontrolling interest to fair value.

Further details related to current year results, including results by segment, are included below under Results of Operations.

### Events Impacting Future Results

On February 1, 2013, subsequent to the Company's second quarter of fiscal 2013, the Company announced the signing of a definitive agreement to acquire 100% of the shares of privately-held Velcera, Inc. ("Velcera") for approximately \$160,000 in cash. Headquartered in Yardley, Pennsylvania, Velcera, through its FidoPharm subsidiary, is a leading companion pet health product company committed to providing consumers with best-in-class companion pet health products that contain the same active ingredients as branded veterinary products, but at a significantly lower cost. FidoPharm products, including the PetArmor® flea and tick products, are available at major retailers nationwide, offering consumers the benefits of convenience and cost savings to ensure the highest quality care for their pets. The acquisition, which is expected to close during calendar 2013, will expand the Company's Consumer Healthcare pet healthcare category.

On December 28, 2012, the Company acquired the remaining 81.5% interest of Cobrek Pharmaceuticals, Inc. ("Cobrek"), a privately-held, Chicago, Illinois-based drug development company, for \$41,967 in cash. In May 2008, the Company acquired an 18.5% minority stake in Cobrek for \$12,575 in conjunction with entering into a product development collaborative partnership agreement focused on generic pharmaceutical foam dosage form products. As of the acquisition date, the partnership had successfully yielded two commercialized foam-based products and had an additional two U.S. FDA approved foam-based products, both of which were launched subsequent to the Company's second quarter of fiscal 2013. Cobrek derives its earnings stream primarily from exclusive technology agreements. This acquisition is expected to favorably impact the Company's Rx Pharmaceuticals operating results and to further strengthen the Company's position in foam-based technologies for existing and future U.S. Rx products.

On October 1, 2012, the Company completed the acquisition of substantially all of the assets of privately-held Sergeant's for \$285,000 in cash. As of the end of the second quarter of fiscal 2013, the Company had incurred \$1,920 of acquisition costs, of which \$1,880 and \$40 were expensed in operations in the first and second quarters of fiscal 2013, respectively. Headquartered in Omaha, Nebraska, Sergeant's is a leading supplier of pet healthcare products, including flea and tick remedies, health and well-being products, natural and formulated treats, and consumable products. The acquisition expanded the Company's Consumer Healthcare product portfolio into the pet healthcare category and is expected to add approximately \$140,000 in net sales in the first full fiscal year of combined operations.

In January 2012, a branded competitor in the OTC market began to experience certain quality issues at one of its facilities, causing it to temporarily shut down the facility. Due to this situation, the Company experienced an increase in demand for its OTC products during the second half of fiscal 2012 and the first half of 2013, which had a positive impact on the Consumer Healthcare segment's net sales and results of operations. At this time, the branded competitor is in the process of returning to the market. The impact on the Company's future results will largely be determined by the extent of the branded competitor's strategies regarding supply chain, manufacturing and marketing as well as the pace at which they return to the market, each of which may have an impact on the sales for OTC products.

Beginning in the third quarter of fiscal 2010, a branded competitor in the OTC market began to experience periodic interruptions of distribution of certain of its products in the adult and pediatric analgesic categories. These interruptions have included periods of time where supply of certain products has been suspended altogether. Due to this situation, which has continued through the first half of fiscal 2013, the Company experienced an increase in demand for certain adult and pediatric analgesic products. This increased demand has generally had a positive impact on the Consumer Healthcare segment's net sales. To the extent that products from this key competitor remain absent from the market in fiscal 2013, the Company's Consumer Healthcare net sales and results of operations could continue to benefit. At this time, the branded competitor is in the process of returning to the market, however the Company cannot predict the pace at which the branded competitor will return to market, the extent of consumers' reacceptance of the branded products, or the extent of the branded competitor's marketing activities.

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## RESULTS OF OPERATIONS

## Consumer Healthcare

|                      | Three Months Ended   |                      | Increase/(Decrease) % Change |      |   |
|----------------------|----------------------|----------------------|------------------------------|------|---|
|                      | December 29,<br>2012 | December 31,<br>2011 |                              |      |   |
| Net sales            | \$539,288            | \$471,277            | \$ 68,011                    | 14.4 | % |
| Gross profit         | \$162,254            | \$148,813            | \$ 13,441                    | 9.0  | % |
| Gross profit %       | 30.1                 | % 31.6               | % (1.5                       | )%   |   |
| Operating expenses   | \$76,176             | \$66,563             | \$ 9,613                     | 14.4 | % |
| Operating expenses % | 14.1                 | % 14.1               | % —                          | %    |   |
| Operating income     | \$86,078             | \$82,250             | \$ 3,828                     | 4.7  | % |
| Operating income %   | 16.0                 | % 17.5               | % (1.5                       | )%   |   |

The increase in net sales for the second quarter of fiscal 2013 was driven primarily by \$33,800 of net sales attributable to the Sergeant's and CanAm acquisitions, an increase in sales volumes of existing products of \$38,500, primarily in the contract manufacturing, analgesics and smoking cessation categories, and new product sales of \$12,300, mainly in the cough/cold, dermatologic and gastrointestinal categories. These increases were partially offset by the impact of the extra week of operations experienced in the second quarter of fiscal 2012, by a decline of \$12,700 in sales of existing products within the cough/cold/allergy and gastrointestinal product categories and \$4,700 in discontinued products.

Second quarter gross profit for fiscal 2013 increased due primarily to gross profit attributable to the net increase in sales of existing products, incremental gross profit attributable to the Sergeant's and CanAm acquisitions and contribution from new product sales. These increases were partially offset by a one-time charge of \$7,700 to cost of sales as a result of the step-up of inventory acquired and sold during the second quarter of fiscal 2013 related to the Sergeant's acquisition. This one-time charge also negatively impacted the gross profit percentage in the second quarter of fiscal 2013.

Second quarter operating expenses for fiscal 2013 increased due primarily to \$10,300 of incremental operating expenses from the acquisitions of Sergeant's and Can Am, partially offset by lower research and development expenses due to timing of projects.

|                      | Six Months Ended     |                      | Increase/(Decrease) % Change |      |   |
|----------------------|----------------------|----------------------|------------------------------|------|---|
|                      | December 29,<br>2012 | December 31,<br>2011 |                              |      |   |
| Net sales            | \$989,704            | \$882,958            | \$ 106,746                   | 12.1 | % |
| Gross profit         | \$308,089            | \$278,171            | \$ 29,918                    | 10.8 | % |
| Gross profit %       | 31.1                 | % 31.5               | % (0.4                       | )%   |   |
| Operating expenses   | \$142,723            | \$126,732            | \$ 15,991                    | 12.6 | % |
| Operating expenses % | 14.4                 | % 14.4               | % —                          | %    |   |
| Operating income     | \$165,366            | \$151,439            | \$ 13,927                    | 9.2  | % |
| Operating income %   | 16.7                 | % 17.2               | % (0.5                       | )%   |   |

Year-to-date net sales for fiscal 2013 increased due primarily to an increase in U.S. sales of existing products of \$51,600, primarily in the contract manufacturing and smoking cessation categories, \$43,000 of net sales attributable to the Sergeant's and CanAm acquisitions and new product sales of approximately \$25,600, mainly in the cough/cold, dermatological and gastrointestinal product categories. The Company's international locations, primarily the U.K., also experienced an increase of \$9,800 in their existing product sales due primarily to smoking cessation and contract manufacturing sales growth in European markets. These increases were partially offset by a decline of \$13,500 in sales of existing products within the analgesics and feminine hygiene product categories and \$9,900 in discontinued

products.

Year-to-date gross profit for fiscal 2013 increased due primarily to gross profit attributable to the net increase in sales of existing products, incremental gross profit attributable to the Sergeant's and CanAm acquisitions and contribution from new product sales. These increases were partially offset by a one-time charge of \$7,700 to cost of sales as a result of the step-up of inventory value related to the Sergeant's acquisition in the second quarter of fiscal 2013.

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Year-to-date operating expenses included \$13,000 of incremental operating expenses from the acquisitions of Sergeant's and CanAm. Excluding acquisitions, selling and distribution expenses increased \$2,500 on higher sales volume, while administration expenses were lower year-over-year due primarily to a \$2,500 indemnification settlement payment the Company received in the first quarter of fiscal 2013 related to its acquisition of Orion Laboratories Pty Ltd. in March 2010. In addition, research and development expenses were approximately \$1,000 higher year-over-year due primarily to increased spending on developmental materials.

## Nutritionals

|                      | Three Months Ended   |                      | Increase/(Decrease) % Change |   |      |    |
|----------------------|----------------------|----------------------|------------------------------|---|------|----|
|                      | December 29,<br>2012 | December 31,<br>2011 |                              |   |      |    |
| Net sales            | \$ 121,938           | \$ 128,147           | \$ (6,209                    | ) | (4.8 | )% |
| Gross profit         | \$ 30,145            | \$ 28,230            | \$ 1,915                     |   | 6.8  | %  |
| Gross profit %       | 24.7                 | % 22.0               | % 2.7                        | % |      |    |
| Operating expenses   | \$ 22,985            | \$ 23,678            | \$ (693                      | ) | (2.9 | )% |
| Operating expenses % | 18.8                 | % 18.5               | % 0.3                        | % |      |    |
| Operating income     | \$ 7,160             | \$ 4,552             | \$ 2,608                     |   | 57.3 | %  |
| Operating income %   | 5.9                  | % 3.6                | % 2.3                        | % |      |    |

Second quarter net sales for fiscal 2013 decreased due primarily to a decline in existing products of \$9,400, partially offset by new product sales of approximately \$3,200, primarily in the VMS and infant foods categories. The decline in sales of existing products was attributable primarily to the impact of the extra week of operations last year.

Second quarter gross profit and gross profit percentage for fiscal 2013 increased due primarily to price increases and favorable product mix.

Second quarter operating expenses for fiscal 2013 decreased due primarily to lower employee-related expenses, along with the absence of operating expenses related to the Company's Florida location, which the Company closed in the fourth quarter of fiscal 2012. See Note 13 to the Notes to Condensed Consolidated Statements for further details on this restructuring plan.

|                      | Six Months Ended     |                      | Increase/(Decrease) % Change |   |      |    |
|----------------------|----------------------|----------------------|------------------------------|---|------|----|
|                      | December 29,<br>2012 | December 31,<br>2011 |                              |   |      |    |
| Net sales            | \$ 225,361           | \$ 248,008           | \$ (22,647                   | ) | (9.1 | )% |
| Gross profit         | \$ 55,980            | \$ 57,799            | \$ (1,819                    | ) | (3.1 | )% |
| Gross profit %       | 24.8                 | % 23.3               | % 1.5                        | % |      |    |
| Operating expenses   | \$ 44,937            | \$ 46,006            | \$ (1,069                    | ) | (2.3 | )% |
| Operating expenses % | 19.9                 | % 18.6               | % 1.3                        | % |      |    |
| Operating income     | \$ 11,043            | \$ 11,793            | \$ (750                      | ) | (6.4 | )% |
| Operating income %   | 4.9                  | % 4.8                | % 0.1                        | % |      |    |

Year-to-date net sales for fiscal 2013 decreased due primarily to the impact of the extra week of operations in the prior year period, a decline in existing products of \$20,000, partially offset by new product sales of approximately \$6,400, primarily in the infant formula and VMS categories. Net sales of existing products were negatively impacted by the shutdown of the Company's Vermont manufacturing facility for the installation of a new plastic container powder infant formula packaging line. The Company has invested approximately \$29,000 for this new state-of-the-art consumer-friendly packaging capability. In the fourth quarter of fiscal 2012, retailers increased purchases in advance



of the installation of the new plastic container packaging line and the conversion of the Company's ERP system on July 1, 2012. In addition, net sales were negatively impacted by regulatory changes in one of the Company's main international markets that caused a delay in the fulfillment of international orders. Net sales in the VMS category were also negatively impacted by increased competition.

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Year-to-date gross profit for fiscal 2013 decreased due primarily to the decrease in existing product sales. The gross profit percentage increased 150 basis points in fiscal 2013 compared to fiscal 2012 due primarily to price increases and favorable product mix.

Year-to-date operating expenses for fiscal 2013 decreased due primarily to lower employee-related expenses, along with the absence of operating expenses related to the Company's Florida location, which the Company closed in the fourth quarter of fiscal 2012.

## Rx Pharmaceuticals

|                      | Three Months Ended   |                      | Increase/(Decrease) % Change |    |      |    |
|----------------------|----------------------|----------------------|------------------------------|----|------|----|
|                      | December 29,<br>2012 | December 31,<br>2011 |                              |    |      |    |
| Net sales            | \$ 162,541           | \$ 177,196           | \$ (14,655                   | )  | (8.3 | )% |
| Gross profit         | \$ 86,036            | \$ 91,378            | \$ (5,342                    | )  | (5.8 | )% |
| Gross profit %       | 52.9                 | % 51.6               | % 1.3                        | %  |      |    |
| Operating expenses   | \$ 21,977            | \$ 21,404            | \$ 573                       |    | 2.7  | %  |
| Operating expenses % | 13.5                 | % 12.1               | % 1.4                        | %  |      |    |
| Operating income     | \$ 64,059            | \$ 69,974            | \$ (5,915                    | )  | (8.5 | )% |
| Operating income %   | 39.4                 | % 39.5               | % (0.1                       | )% |      |    |

Second quarter net sales for fiscal 2013 were lower compared to fiscal 2012 due primarily to the extra week of operations in the prior year period. Existing product sales were lower year-over-year by approximately \$11,300 due to a combination of decreased volume and pricing on certain existing products as a result of increased competition. These decreases were partially offset by new product sales of \$9,300.

Second quarter gross profit for fiscal 2013 declined in line with the net sales decrease. However, the gross profit percentage increased 130 basis points in fiscal 2013 compared to fiscal 2012 due primarily to favorable product mix, as well as higher margin on new product sales.

Second quarter operating expenses for fiscal 2013 increased due to the absence of approximately \$3,300 related to patent litigation settlements recognized in the second quarter of fiscal 2012, along with the inclusion of \$1,500 of severance costs related to the acquisition of Cobrek in the second quarter of fiscal 2013. These increases were partially offset by lower research and development expenses due to timing of projects.

|                      | Six Months Ended     |                      | Increase/(Decrease) % Change |    |      |   |
|----------------------|----------------------|----------------------|------------------------------|----|------|---|
|                      | December 29,<br>2012 | December 31,<br>2011 |                              |    |      |   |
| Net sales            | \$ 325,483           | \$ 304,823           | \$ 20,660                    |    | 6.8  | % |
| Gross profit         | \$ 172,720           | \$ 132,838           | \$ 39,882                    |    | 30.0 | % |
| Gross profit %       | 53.1                 | % 43.6               | % 9.5                        | %  |      |   |
| Operating expenses   | \$ 40,157            | \$ 38,379            | \$ 1,778                     |    | 4.6  | % |
| Operating expenses % | 12.3                 | % 12.6               | % (0.3                       | )% |      |   |
| Operating income     | \$ 132,563           | \$ 94,459            | \$ 38,104                    |    | 40.3 | % |
| Operating income %   | 40.7                 | % 31.0               | % 9.7                        | %  |      |   |

Year-to-date net sales for fiscal 2013 increased due primarily to an additional month of net sales of \$19,100 from the July 26, 2011 acquisition of Paddock, new product sales of \$17,700 and improved pricing on select products as compared to the prior year. These increases were partially offset by decreased volume in existing products, along with

the extra week of operations in the second quarter of fiscal 2012.

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Year-to-date gross profit for fiscal 2013 increased due primarily to the absence of the one-time charge of \$27,179 to cost of sales as a result of the step-up of inventory value related to the Paddock acquisition in the first quarter of fiscal 2012. This increase was also due to an additional month of gross profit contribution from the Paddock acquisition, gross profit from new product sales, and favorable pricing dynamics on select products as compared to the prior year. These increases were partially offset by lower gross profit contribution due to the decreased volume and pricing on an existing key product discussed above. The gross profit percentage increased 950 basis points in the first half of fiscal 2013 compared to fiscal 2012 due primarily to the absence of the inventory step-up charge discussed above.

Year-to-date operating expenses for fiscal 2013 increased due primarily to an additional month of operating expenses of \$2,800 attributable to the Paddock acquisition. Fiscal 2013 operating expenses included \$1,500 of severance costs related to the Cobrek acquisition and a \$2,500 benefit related to a contract termination payment from a customer. Fiscal 2012 operating expenses included proceeds of \$3,500 related to the sale of pipeline development projects, which the Company sold in the first quarter of fiscal 2012 in response to the Federal Trade Commission's review of the Paddock acquisition, and \$3,800 of severance costs related to the Paddock acquisition.

## API

|                      | Three Months Ended   |                      |           | Increase/(Decrease) % Change |      |    |
|----------------------|----------------------|----------------------|-----------|------------------------------|------|----|
|                      | December 29,<br>2012 | December 31,<br>2011 |           |                              |      |    |
| Net sales            | \$40,854             | \$42,752             | \$ (1,898 | )                            | (4.4 | )% |
| Gross profit         | \$22,883             | \$20,151             | \$ 2,732  |                              | 13.6 | %  |
| Gross profit %       | 56.0                 | % 47.1               | % 8.9     | %                            |      |    |
| Operating expenses   | \$9,063              | \$8,458              | \$ 605    |                              | 7.2  | %  |
| Operating expenses % | 22.2                 | % 19.8               | % 2.4     | %                            |      |    |
| Operating income     | \$13,820             | \$11,693             | \$ 2,127  |                              | 18.2 | %  |
| Operating income %   | 33.8                 | % 27.4               | % 6.4     | %                            |      |    |

Second quarter net sales for fiscal 2013 decreased due primarily to a decrease in existing product sales of approximately \$5,300 as a result of increased competition on select key products. This decrease was partially offset by \$4,000 of net sales related to the API commercial agreement discussed below.

The Company has had a long-standing commercial agreement with a customer to supply an API for use in a generic finished dosage pharmaceutical product that was launched in the fourth quarter of fiscal 2012. Due to unexpected developments in that market formation, the Company's customer was able to launch its product with 180-day exclusivity status, which ended during the Company's second quarter of fiscal 2013.

Second quarter gross profit for fiscal 2013 increased due primarily to the API commercial agreement previously discussed. The gross profit percentage increased 890 basis points in the second quarter of fiscal 2013 compared to fiscal 2012 due primarily to the API commercial agreement, along with favorable mix of existing product sales.

Second quarter operating expenses for fiscal 2013 increased due primarily to higher legal fees and increased spending on research and development materials.

|              | Six Months Ended     |                      |            | Increase/(Decrease) % Change |       |    |
|--------------|----------------------|----------------------|------------|------------------------------|-------|----|
|              | December 29,<br>2012 | December 31,<br>2011 |            |                              |       |    |
| Net sales    | \$77,273             | \$90,396             | \$ (13,123 | )                            | (14.5 | )% |
| Gross profit | \$44,243             | \$41,759             | \$ 2,484   |                              | 5.9   | %  |

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|                      |          |          |          |     |   |
|----------------------|----------|----------|----------|-----|---|
| Gross profit %       | 57.3     | % 46.2   | % 11.1   | %   |   |
| Operating expenses   | \$17,104 | \$15,851 | \$ 1,253 | 7.9 | % |
| Operating expenses % | 22.1     | % 17.5   | % 4.6    | %   |   |
| Operating income     | \$27,139 | \$25,908 | \$ 1,231 | 4.8 | % |
| Operating income %   | 35.1     | % 28.7   | % 6.4    | %   |   |

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Year-to-date net sales for fiscal 2013 decreased due primarily to a decrease in existing product sales of approximately \$21,900 as a result of increased competition on select products, along with a negative impact of \$2,600 due to changes in foreign currency exchange rates. These decreases were partially offset by \$11,400 of net sales related to the API commercial agreement discussed above. The net sales of API are highly dependent on the level of competition in the marketplace for a specific material and the variable ordering patterns of customers on a quarter-over-quarter basis.

Year-to-date gross profit for fiscal 2013 increased compared to fiscal 2012 due primarily to the API commercial agreement previously discussed. The gross profit percentage increased 1,110 basis points in the first half of fiscal 2013 compared to fiscal 2012 due primarily to the API commercial agreement, along with higher sales volumes of higher margin products.

Year-to-date operating expenses for fiscal 2013 increased due primarily to higher administrative costs driven by higher employee-related expenses, along with higher legal fees and increased spending on research and development materials. These increases were partially offset by a favorable impact of \$1,100 due to changes in foreign exchange rates.

**Other**

The Other category consists of the Company's Israel Pharmaceutical and Diagnostic Products operating segment, which does not individually meet the quantitative thresholds required to be a reportable segment.

|                      | Three Months Ended   |                      | Increase/(Decrease) | % Change |         |
|----------------------|----------------------|----------------------|---------------------|----------|---------|
|                      | December 29,<br>2012 | December 31,<br>2011 |                     |          |         |
| Net sales            | \$18,338             | \$18,798             | \$ (460)            | )        | (2.4)%  |
| Gross profit         | \$5,847              | \$6,303              | \$ (456)            | )        | (7.2)%  |
| Gross profit %       | 31.9                 | % 33.5               | % (1.6)             | )        | %       |
| Operating expenses   | \$5,184              | \$5,379              | \$ (195)            | )        | (3.6)%  |
| Operating expenses % | 28.3                 | % 28.6               | % (0.3)             | )        | %       |
| Operating income     | \$663                | \$924                | \$ (261)            | )        | (28.2)% |
| Operating income %   | 3.6                  | % 4.9                | % (1.3)             | )        | %       |

Second quarter operating results for fiscal 2013 were relatively flat compared to fiscal 2012.

|                      | Six Months Ended     |                      | Increase/(Decrease) | % Change |         |
|----------------------|----------------------|----------------------|---------------------|----------|---------|
|                      | December 29,<br>2012 | December 31,<br>2011 |                     |          |         |
| Net sales            | \$34,948             | \$37,280             | \$ (2,332)          | )        | (6.3)%  |
| Gross profit         | \$11,402             | \$11,887             | \$ (485)            | )        | (4.1)%  |
| Gross profit %       | 32.6                 | % 31.9               | % 0.7               | )        | %       |
| Operating expenses   | \$10,314             | \$10,678             | \$ (364)            | )        | (3.4)%  |
| Operating expenses % | 29.5                 | % 28.6               | % 0.9               | )        | %       |
| Operating income     | \$1,088              | \$1,209              | \$ (121)            | )        | (10.0)% |
| Operating income %   | 3.1                  | % 3.2                | % (0.1)             | )        | %       |

Year-to-date net sales for fiscal 2013 decreased due primarily to unfavorable changes in foreign currency exchange rates. Year-to-date gross profit and operating expenses for fiscal 2013 were relatively flat compared to fiscal 2012.

**Unallocated Expenses**

Unallocated expenses were comprised of certain corporate services that were not allocated to the segments. Unallocated expenses were \$7,923 for the second quarter of fiscal 2013 compared to \$8,725 for the second quarter of fiscal 2012, a decrease of 9% or \$802 due primarily to lower variable incentive-related expenses.

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Year-to-date unallocated expenses were \$16,769 for fiscal 2013 compared to \$22,588 for fiscal 2012, a decrease of 26% or \$5,819 due primarily to the absence of \$5,600 of acquisition expenses related to Paddock in the first quarter of fiscal 2012, partially offset by \$1,920 of acquisition expenses related to Sergeant's and lower variable incentive-related expenses.

### Interest and Other (Consolidated)

Interest expense for the second quarter was \$16,779 for fiscal 2013 and \$16,493 for fiscal 2012. Year-to-date interest expense was \$33,908 and \$30,189 for fiscal 2013 and 2012, respectively. The increase in interest expense is related to the issuance of the senior notes consisting of \$75,000, 4.27% Series 2011-A senior notes, due September 30, 2021 ("Series 2011-A Notes"); \$175,000, 4.52% Series 2011-B senior notes, due December 15, 2023 ("Series 2011-B Notes"); and \$100,000, 4.67% Series 2011-C senior notes, due September 30, 2026 ("Series 2011-C Notes", and together with the Series 2011-A Notes and the Series 2011-B Notes, the "Series 2011 Notes"). Interest income for the second quarter was \$1,465 and \$852 for fiscal 2013 and 2012, respectively. Year-to-date interest income was \$2,741 and \$1,978 for fiscal 2013 and 2012, respectively.

In conjunction with the Cobrek acquisition, the Company remeasured the fair value of its 18.5% noncontrolling interest, which was valued at \$9,526, and recognized a loss of \$3,049 in other expense during the second quarter of fiscal 2013. See Note 2 of the Notes to the Condensed Consolidated Financial Statements for additional information.

### Income Taxes (Consolidated)

The effective tax rate on income was 27.1% and 30.9% for the second quarter of fiscal 2013 and 2012, respectively. The effective tax rate on income was 26.1% and 27.0% for the first six months of fiscal 2013 and 2012, respectively. The effective tax rate was favorably affected by a reduction in the reserves for uncertain tax liabilities, recorded in accordance with ASC Topic 740 "Income Taxes", in the amount of \$7,452 and \$7,064 for the first six months of fiscal 2013 and 2012, respectively, related to various audit resolutions and statute expirations. Foreign source income before tax for the second quarter of fiscal 2013 was 38% of pre-tax earnings, up from 34% in the same period of fiscal 2012. Foreign source income before tax for the first six months of fiscal 2013 was 39% of pre-tax earnings, down from 44% in the same period for fiscal 2012.

In December 2011, Israel rescinded previously passed legislation that would have reduced corporate tax rates to 22% for 2012, 21% for 2013, 20% for 2014 and 18% for 2015 on income generated by Israeli entities. This change has resulted in a current corporate statutory rate of 25% in Israel for non-exempt entities.

The Company's tax rate is subject to adjustment over the balance of the fiscal year due to, among other things, income tax rate changes by governments; the jurisdictions in which the Company's profits are determined to be earned and taxed; changes in the valuation of the Company's deferred tax assets and liabilities; adjustments to estimated taxes upon finalization of various tax returns; adjustments to the Company's interpretation of transfer pricing standards, changes in available tax credits, grants and other incentives; changes in stock-based compensation expense; changes in tax laws or the interpretation of such tax laws (for example, proposals for fundamental U.S. international tax reform); changes in U.S. generally accepted accounting principles; expiration of or the inability to renew tax rulings or tax holiday incentives; and the repatriation of non-U.S. earnings with respect to which the Company has not previously provided for U.S. taxes.

The total amount of unrecognized tax benefits was \$111,952 and \$108,520 as of December 29, 2012 and June 30, 2012, respectively. The total amount accrued for interest and penalties in the liability for uncertain tax positions was \$21,900 and \$20,005 as of December 29, 2012 and June 30, 2012, respectively.



Financial Condition, Liquidity and Capital Resources

Cash and cash equivalents decreased \$71,896 to \$459,514 at December 29, 2012, from \$531,410 at December 31, 2011. Working capital, including cash, increased \$71,805 to \$1,139,256 at December 29, 2012, from \$1,067,451 at December 31, 2011.

Cash and cash equivalents decreased \$142,975 to \$459,514 at December 29, 2012, from \$602,489 at June 30, 2012 due to the acquisition of Sergeant's as discussed in Note 2 of the Notes to the Condensed Consolidated Financial Statements. Working capital, including cash, decreased \$3,934 to \$1,139,256 at December 29, 2012, from \$1,143,190 at June 30, 2012.

In addition to the cash and cash equivalents balance of \$459,514 at December 29, 2012, the Company had \$398,000 available under its revolving loan commitment and approximately \$1,200 available under its Indian credit facilities, as well as \$200,000 available under its accounts receivable securitization program described below. As of January 10, 2013, the Company

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had an additional \$3,500 available under its Indian credit facilities as described in Note 7 of the Notes to Condensed Consolidated Financial Statements. Cash, cash equivalents, cash flows from operations and borrowings available under the Company's credit facilities are expected to be sufficient to finance the known and/or foreseeable liquidity, capital expenditures, dividends, acquisitions and, to the extent authorized, share repurchases of the Company. Although the Company's lenders have made commitments to make funds available to it in a timely fashion, if the current economic conditions worsen (or new information becomes publicly available impacting the institutions' credit rating or capital ratios), these lenders may be unable or unwilling to lend money under the Company's existing credit facilities.

|  | Six Months Ended  |                   |
|--|-------------------|-------------------|
|  | December 29, 2012 | December 31, 2011 |
| Net cash from operating activities       | \$229,603         | \$220,122         |
| Net cash for investing activities        | \$(366,223)       | \$(592,961)       |
| Net cash (for) from financing activities | \$(2,313)         | \$591,618         |

Year-to-date net cash provided from operating activities increased by \$9,481 due primarily to increased earnings for fiscal 2013 compared to fiscal 2012, partially offset by higher income tax payments.

Year-to-date net cash used for investing activities decreased by \$226,738 due primarily to the Paddock acquisition in the first quarter of fiscal 2012, partially offset by the acquisitions of Sergeant's and Cobrek in the second quarter of fiscal 2013.

Capital expenditures for facilities and equipment were for manufacturing productivity/growth projects, quality investment projects, investments at newly acquired entities, technology infrastructure, system upgrades and the API expansion into India. Capital expenditures are anticipated to be between \$120,000 to \$150,000 for fiscal 2013 related primarily to manufacturing productivity and capacity projects, quality investment projects, investments at newly acquired entities, technology infrastructure, market driven packaging changes, system upgrades and the API expansion into India.

Year-to-date net cash used for financing activities was \$2,313 for fiscal 2013 compared to net cash provided from financing activities of \$591,618 for fiscal 2012. The decrease in cash provided from financing activities was due primarily to the absence of the net borrowings of long-term debt associated with the Credit Agreement entered into during the second quarter of fiscal 2012.

The Company does not currently have a common stock repurchase program, but does repurchase shares in private party transactions from time to time. Private party transactions are shares repurchased in connection with the vesting of restricted stock awards to satisfy employees' minimum statutory tax withholding obligations. The Company did not repurchase any shares in private party transactions during the second quarter of fiscal 2013. During the second quarter of fiscal 2012, the Company repurchased 1 share of its common stock for \$55 in private party transactions. During the six months ended December 29, 2012, the Company repurchased 110 shares of its common stock for \$12,159 in private party transactions. During the six months ended December 31, 2011, the Company repurchased 88 shares of its common stock for \$7,954 in private party transactions. All common stock repurchased by the Company becomes authorized but unissued stock and is available for reissuance in the future for general corporate purposes.

The Company paid quarterly dividends totaling \$16,005 and \$14,021, or \$0.17 and \$0.15 per share, for the first half of fiscal 2013 and 2012, respectively. The declaration and payment of dividends, if any, is subject to the discretion of the Board of Directors and will depend on the earnings, financial condition and capital and surplus requirements of the Company and other factors the Board of Directors may consider relevant.

## Credit Facilities

The Company has revolving loan and term loan commitments of \$400,000 each, pursuant to the Credit Agreement dated as of October 26, 2011 with JPMorgan Chase Bank, N.A., as Administrative Agent; Bank of America, N.A. and Morgan Stanley Senior Funding, Inc., as Syndication Agents; and certain other participant banks (the "2011 Credit Agreement"). On November 5, 2012, in accordance with the 2011 Credit Agreement, the Company made a \$40,000 scheduled repayment of the term loan commitment. Subsequently, in conjunction with the amendment to the 2011 Credit Agreement described in the paragraph below, the Company restored the aggregate term loan commitments to the original \$400,000. The loans bear interest, at the election of the Company, at either the Alternate Base Rate plus the Applicable Margin or the Adjusted LIBO Rate plus the Applicable Margin, as specified and defined in the 2011 Credit Agreement. The Applicable Margin is based on the Company's Leverage Ratio from time to time, as defined in the 2011 Credit Agreement. In the first quarter of fiscal 2013, the

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Company amended the 2011 Credit Agreement to provide flexibility to the Company in managing the capital structures of certain immaterial subsidiaries. This amendment did not change the interest rate, term or amount of the revolving loan and term loan commitments.

On November 20, 2012, the 2011 Credit Agreement was further amended to: (i) provide that guaranties and collateral required under the 2011 Credit Agreement will be released by the lenders upon the Company attaining index debt ratings of BBB- from Standard and Poor's and Baa3 from Moody's, or higher, and if the guaranties and collateral have been so released, to provide for their reinstatement for the benefit of the lenders upon the Company receiving index debt ratings of BB+ from Standard and Poor's and Ba1 from Moody's, or lower; (ii) extend the final maturity date of the term loan and any revolving loans under the 2011 Credit Agreement from November 3, 2016, to November 3, 2017, with no changes to loan pricing or other terms and conditions except the triggering events for release and reinstatement of guaranties and collateral as described above; and (iii) restore the aggregate term loan commitments to the original \$400,000.

### Accounts Receivable Securitization

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

The Securitization Program is a three-year program, expiring June 13, 2014. During the second quarter of fiscal 2013, the Company amended the terms of the Securitization Program effectively increasing the amount the Company can borrow from \$185,000 to \$200,000. Under the terms of the Securitization Program, the subsidiaries sell certain eligible trade accounts receivables to a wholly owned bankruptcy remote special purpose entity ("SPE"), Perrigo Receivables, LLC. The Company has retained servicing responsibility for those receivables. The SPE will then transfer an interest in the receivables to the Committed Investors. Under the terms of the Securitization Program, Bank of America, Wells Fargo and PNC have committed \$110,000, \$60,000 and \$30,000, respectively, effectively allowing the Company to borrow up to a total amount of \$200,000, subject to a Maximum Net Investment calculation as defined in the agreement. At December 29, 2012, \$200,000 was available under this calculation. The interest rate on any borrowings is based on a 30-day LIBOR plus 0.45%. In addition, a facility fee of 0.45% is applied to the \$200,000 commitment whether borrowed or undrawn. Under the terms of the Securitization Program, the Company may elect to have the entire amount or any portion of the facility unutilized.

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

### Investment Securities

The Company currently maintains a portfolio of auction rate securities ("ARS") with a total par value of \$18,000 and an estimated fair value of \$7,507 at December 29, 2012. As a result of the tightening of the credit markets beginning in calendar 2008, there has been no liquid market for these securities for an extended period of time. While a market has materialized for these securities, though at a much reduced level than the pre-2008 period, the Company cannot predict when liquidity will fully return to historical levels 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. 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 fully restored to these markets. 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. At December 29, 2012, these securities were considered as available-for-sale and were recorded at a fair value of \$7,507. 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. See Note 4 of the Notes to the Condensed Consolidated Financial Statements for additional information.

#### Contractual Obligations

Other than the amendment to the 2011 Credit Agreement discussed above, there were no material changes in contractual obligations during the second quarter of fiscal 2013.

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Critical Accounting Estimates

Determination of certain amounts in the Company's financial statements requires the use of estimates. These estimates are based upon the Company's historical experiences combined with management's understanding of current facts and circumstances, and they are reviewed by the Audit Committee. Although the estimates are considered reasonable, actual results could differ from the estimates. A summary of the accounting estimates considered by management to require the most judgment and are critical in the preparation of the financial statements is provided in the Company's Annual Report on Form 10-K for the year ended June 30, 2012. During the first half of fiscal 2013, there have been no material changes in the accounting estimates previously disclosed.

Recently Issued Accounting Standards

See Note 1 of the Notes to Condensed Consolidated Financial Statements for information regarding recently issued accounting standards.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk (in thousands)

The Company is exposed to market risk due to changes in interest rates, the liquidity of the securities markets and currency exchange rates.

**Interest Rate Risk** - The Company is exposed to interest rate changes primarily as a result of interest income earned on its investment of cash on hand and interest expense on borrowings used to finance acquisitions and working capital requirements.

The Company enters into certain derivative financial instruments, when available on a cost-effective basis, to hedge its underlying economic exposure related to the management of interest rate risk. See Note 8 of the Notes to Condensed Consolidated Financial Statements for further information regarding the Company's derivative and hedging activities. Because of the use of certain derivative financial instruments and the significant amount of fixed rate debt, the Company believes that a fluctuation in interest rates in the near future will not have a material impact on the Company's consolidated financial statements. These instruments are managed on a consolidated basis to efficiently net exposures and thus take advantage of any natural offsets. Derivative financial instruments are not used for speculative purposes. Gains and losses on hedging transactions are offset by gains and losses on the underlying exposures being hedged.

**Market Risk** - The Company's investment securities include ARS totaling \$18,000 in par value. ARS are privately placed variable rate debt instruments whose interest rates are reset within a contractual range, approximately every seven to 35 days. 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. 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 fully restored to these markets. While a market has materialized for these securities, though at a much reduced level than the pre-2008 period, the Company cannot predict when liquidity will fully return to historical levels 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. At December 29, 2012, these securities were recorded at a fair value of \$7,507. 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.

**Foreign Exchange Risk** - The Company has operations in the U.K., Israel, Mexico and Australia. These operations transact business in their local currency and foreign currencies, thereby creating exposures to changes in exchange rates. A large portion of the sales of the Company's Israeli operations is in foreign currencies, primarily U.S. dollars and euros, while these operations incur costs in their local currency. In addition, the Company's U.S. operations continue to expand the Company's export business, primarily in Canada, China and Europe, which is subject to fluctuations in the respective currency exchange rates relative to the U.S. dollar. Due to sales and cost structures, certain segments experience a negative impact as a result of the changes in exchange rates, while other segments experience a positive impact related to foreign currency exchange.

The Company monitors and strives to manage risk related to changes in foreign currency exchange rates. Exposures that cannot be naturally offset within a local entity to an immaterial amount are often hedged with foreign currency derivatives or netted with offsetting exposures at other entities. See Note 8 of the Notes to Condensed Consolidated Financial Statements for further information regarding the Company's derivative and hedging activities. The Company cannot predict future changes in foreign currency exposure. Unfavorable fluctuations could adversely impact earnings.

See Item 7A. "Quantitative and Qualitative Disclosures about Market Risk" in the Company's Form 10-K for the year ended June 30, 2012, for additional information regarding market risks.





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Item 4. Controls and Procedures

As of December 29, 2012, the Company's management, including its Chief Executive Officer and its Chief Financial Officer, has performed an interim review of the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934. Based on that review, the Chief Executive Officer and Chief Financial Officer have concluded the Company's disclosure controls and procedures are effective in ensuring that all material information relating to the Company and its consolidated subsidiaries required to be included in the Company's periodic SEC filings would be made known to them by others within those entities in a timely manner and that no changes are required at this time.

In connection with the interim evaluation by the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the Company's internal control over financial reporting pursuant to Rule 13a-15(d) of the Securities Exchange Act of 1934, no changes during the quarter ended December 29, 2012, were identified that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

During the first and third quarters of fiscal 2012, the Company acquired Paddock Laboratories, Inc. ("Paddock") and CanAm Care, LLC ("CanAm"), respectively. In the second quarter of fiscal 2013, the Company acquired Sergeant's Pet Care Products, Inc. ("Sergeant's") and Cobrek Pharmaceuticals, Inc. ("Cobrek") (see Note 2 - Business Acquisitions for additional information). As permitted by Securities and Exchange Commission Staff interpretive guidance for newly acquired businesses, management excluded Paddock, CanAm, Sergeant's, and Cobrek from its interim evaluation of internal control over financial reporting as of December 29, 2012. The Company is in the process of documenting and testing these acquired businesses' internal controls over financial reporting. The Company will incorporate Paddock and CanAm into its annual report on internal control over financial reporting for its fiscal year-end 2013 and will incorporate Sergeant's and Cobrek into its annual report on internal control over financial reporting for its fiscal year-end 2014. As of December 29, 2012, Paddock, CanAm, Sergeant's, and Cobrek's total assets together represented approximately 22% of the Company's consolidated total assets. Paddock, CanAm, Sergeant's, and Cobrek's net sales together represented approximately 10% of the Company's consolidated net sales for the first half of fiscal 2013.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Refer to Note 11 of the Notes to Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

The Company's Annual Report on Form 10-K filed for the fiscal year ended June 30, 2012 includes a detailed discussion of the Company's risk factors. Other than the items noted below, there have been no material changes during the first half of fiscal 2013 to the risk factors that were included in the Form 10-K.

Although the Company only enters into business acquisitions and divestitures that it expects will result in benefits to the Company, the Company may not realize those benefits because of integration and other challenges.

As part of the Company's strategy, it evaluates potential acquisitions in the ordinary course of business, some of which could be and have been material. Acquisitions involve a number of risks and present financial, managerial and operational challenges. Integration activities may place substantial demands on the Company's management, operational resources and financial and internal control systems. Customer dissatisfaction or performance problems with an acquired business, technology, service or product could also have a material adverse effect on the Company's reputation and business. The Company's failure to successfully integrate acquisitions could have a negative effect on its operations. In addition, a lack of performance of acquisitions could cause financial difficulties. During the second quarter of fiscal 2013, the Company acquired Sergeant's Pet Care Products, Inc. and Cobrek Pharmaceuticals, Inc. In addition, on February 1, 2013, subsequent to the Company's second quarter of fiscal 2013, the Company announced the signing of a definitive agreement to acquire 100% of the shares of privately-held Velcera, Inc. for approximately \$160,000 in cash. This acquisition is expected to close during calendar 2013.

The Company manufactures spot-on pesticides for the monthly control of fleas, ticks, or other external parasites in dogs and cats. These products are safe and effective when used in accordance with label directions; however, pesticide ingredients may cause harm to animals and humans if used improperly. Additional regulation may be enacted to mitigate improper uses of these ingredients, which could have an adverse impact on the Company's sales of such products and resulting income.

In 2009, the U.S. Environmental Protection Agency ("EPA") and Health Canada Pest Management Regulatory Authority ("PMRA") became increasingly concerned about the large number of incident reports involving pet flea and tick treatments with spot-on products. Because of this concern, the EPA and PMRA communicated with the public and issued advisories to the public on April 16, 2009 warning pet owners that the use of spot-on flea and tick products were associated with incidents ranging from mild effects such as skin irritation to more serious effects such as seizures and, in some cases, the death of pets. Subsequently, on May 5, 2009, the EPA met with the registrants of U.S. registered spot-on products and informed each registrant of the need to perform a more detailed analysis of incident data for the year 2008.

A team of expert veterinarians and toxicologists from several divisions of the EPA Office of Pesticide Programs was assembled to evaluate the enhanced incident data. The findings of the analysis indicated that most incidents were classified as minor but all products had major incidents and deaths, the dose range may be too wide for some products, small breed dogs were affected the most and the label warnings against use of dog products on cats were not adequate. At the conclusion of the study, the EPA mandated additional label warnings for spot-on products and required registrants to continue to report quarterly to the EPA incident data for marketed spot-on products. The Company cannot predict whether further label restrictions may be required, or whether additional regulations may be passed, or

to the extent of the adverse impact additional restrictions or regulations may have on the Company's results of operations.

Third-party patents and other intellectual property rights may limit the Company's ability to bring new products to market and may subject the Company to potential legal liability. The failure to bring new products to market in a timely manner without incurring legal liability could cause the Company to lose market share and its operating results may suffer.

At times, the Company may seek approval to market NDA or ANDA products before the expiration of patents for those products, based upon its belief that such patents are invalid, unenforceable or would not be infringed by its products. As a result, the Company may face significant patent litigation. Depending upon a complex analysis of a variety of legal and commercial factors, the Company may, in certain circumstances, elect to market a generic pharmaceutical product while litigation is pending, before any court decision or while an appeal of a lower court decision is pending. This is referred to in the pharmaceutical industry as an "at risk" launch. The risk involved in an "at risk" launch can be substantial because, if a patent

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holder ultimately prevails, the remedies available to the patent holder may include, among other things, damages measured by the profits lost by the holder, which are often significantly higher than the profits the Company makes from selling the generic version of the product. By electing to proceed in this manner, the Company could face substantial damages if a final court decision is adverse to the Company. In the case where a patent holder is able to prove that the Company's infringement was "willful" or "exceptional", the definition of which is subjective, the patent holder may be awarded up to three times the amount of its actual damages. At the end of the third quarter of fiscal 2012 and following a summary judgment ruling of non-infringement, the Company launched a generic version of Mucinex® tablets (600mg) from Reckitt Benckiser prior to the expiration of the relevant patents. At that time, this was an at risk launch. During the second quarter of fiscal 2013, the brand dismissed the appeal, and as a result, this is no longer an at risk launch.

Item 4. Mine Safety Disclosures.

Not applicable.

## Item 6. Exhibits

| Exhibit<br>Number | Description  |
|-------------------|--|
| 10.1              | Amendment to the Nonqualified Deferred Compensation Plan, dated as of October 10, 2012.  |
| 10.2              | Second Amendment, dated November 20, 2012, to the Credit Agreement dated October 26, 2011, among Perrigo Company and certain of its subsidiaries, JPMorgan Chase Bank, N.A , as Administrative Agent, certain other participant banks, and the lender parties therein listed, incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 21, 2012. |
| 31                | Rule 13a-14(a) Certifications.   |
| 32                | Section 1350 Certifications.   |
| 101.INS           | XBRL Instance Document.  |
| 101.SCH           | XBRL Taxonomy Extension Schema Document.   |
| 101.CAL           | XBRL Taxonomy Extension Calculation Linkbase Document.   |
| 101.DEF           | XBRL Taxonomy Extension Definition Linkbase Document.  |
| 101.LAB           | XBRL Taxonomy Extension Label Linkbase Document.   |
| 101.PRE           | XBRL Taxonomy Extension Presentation Linkbase Document.  |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PERRIGO COMPANY  
(Registrant)

Date: February 1, 2013

By: /s/ Joseph C. Papa  
Joseph C. Papa  
Chairman, President and Chief Executive Officer

Date: February 1, 2013

By: /s/ Judy L. Brown  
Judy L. Brown  
Executive Vice President and Chief Financial Officer  
(Principal Accounting and Financial Officer)

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EXHIBIT INDEX

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