

PERRIGO CO
Form 10-Q
April 29, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended: March 27, 2010

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number 0-19725

PERRIGO COMPANY

(Exact name of registrant as specified in its charter)

Michigan
(State or other jurisdiction of
incorporation or organization)

38-2799573
(I.R.S. Employer
Identification No.)

515 Eastern Avenue

Allegan, Michigan
(Address of principal

49010
(Zip Code)

executive offices)

(269) 673-8451

(Registrant's telephone number, including area code)

Not Applicable

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(Former name, former address and former fiscal year,

if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of April 26, 2010, the registrant had 91,383,398 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, intend, believe, estimate, predict, potential or the negative or comparable terminology. Please see Item 1A of the Company's Form 10-K for the year ended June 27, 2009 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.

Table of Contents**Item 1. Financial Statements (Unaudited)****PERRIGO COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share amounts)

(unaudited)

	Third Quarter		Year-to-Date	
	2010	2009	2010	2009
Net sales	\$ 538,306	\$ 505,902	\$ 1,649,475	\$ 1,498,653
Cost of sales	352,440	356,310	1,102,670	1,066,509
Gross profit	185,866	149,592	546,805	432,144
Operating expenses				
Distribution	7,960	6,167	21,493	18,513
Research and development	17,467	17,890	56,699	56,036
Selling and administration	65,658	53,638	188,795	165,533
Subtotal	91,085	77,695	266,987	240,082
Write-off of in-process research and development			14,000	279
Restructuring	7,474		7,474	
Total	98,559	77,695	288,461	240,361
Operating income	87,307	71,897	258,344	191,783
Interest, net	5,989	6,966	18,203	20,465
Other (income) expense, net	(1,327)	1,160	(1,557)	2,565
Investment impairment				15,104
Income from continuing operations before income taxes	82,645	63,771	241,698	153,649
Income tax expense	22,507	17,302	67,299	44,831
Income from continuing operations	60,138	46,469	174,399	108,818
Income (loss) from discontinued operations, net of tax	768	(572)	(1,301)	30
Net income	\$ 60,906	\$ 45,897	\$ 173,098	\$ 108,848
Earnings (loss) per share ⁽¹⁾				
Basic				
Continuing operations	\$ 0.66	\$ 0.51	\$ 1.91	\$ 1.18
Discontinued operations	0.01	(0.01)	(0.01)	0.00
Basic earnings per share	\$ 0.67	\$ 0.50	\$ 1.89	\$ 1.18
Diluted				
Continuing operations	\$ 0.65	\$ 0.50	\$ 1.88	\$ 1.16
Discontinued operations	0.01	(0.01)	(0.01)	0.00
Diluted earnings per share	\$ 0.66	\$ 0.49	\$ 1.86	\$ 1.16

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Weighted average shares outstanding				
Basic	91,179	91,967	91,428	92,251
Diluted	92,589	93,153	92,819	93,747
Dividends declared per share	\$ 0.0625	\$ 0.0550	\$ 0.1800	\$ 0.1600

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

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Table of Contents**PERRIGO COMPANY****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands)

(unaudited)

	March 27, 2010	June 27, 2009	March 28, 2009
Assets			
Current assets			
Cash and cash equivalents	\$ 314,924	\$ 316,133	\$ 197,817
Investment securities	562	3	5
Accounts receivable, net	322,329	325,810	331,307
Inventories	417,580	384,794	383,010
Current deferred income taxes	40,689	41,941	40,447
Income taxes refundable		8,926	12,191
Prepaid expenses and other current assets	33,218	23,658	26,904
Current assets of discontinued operations	9,507	51,699	45,796
Total current assets	1,138,809	1,152,964	1,037,477
Property and equipment	821,564	763,951	724,242
Less accumulated depreciation	(441,283)	(409,634)	(385,780)
	380,281	354,317	338,462
Restricted cash	400,000	400,000	400,000
Goodwill and other indefinite-lived intangible assets	292,030	268,819	249,960
Other intangible assets, net	219,288	214,207	208,093
Non-current deferred income taxes	60,440	74,438	70,610
Other non-current assets	52,633	49,756	45,101
Non-current assets of discontinued operations		21,854	22,181
	\$ 2,543,481	\$ 2,536,355	\$ 2,371,884
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable	\$ 235,085	\$ 271,537	\$ 232,875
Payroll and related taxes	70,588	54,196	51,949
Accrued customer programs	53,788	54,461	52,789
Accrued liabilities	54,520	61,704	49,435
Accrued income taxes	6,958	3,334	
Current deferred income taxes	15,431	18,528	16,120
Current portion of long-term debt		17,181	15,869
Current liabilities of discontinued operations	17,363	19,620	18,975
Total current liabilities	453,733	500,561	438,012
Non-current liabilities			
Long-term debt, less current portion	825,000	875,000	875,000
Non-current deferred income taxes	108,748	139,916	133,955
Other non-current liabilities	104,118	86,476	74,222
Non-current liabilities of discontinued operations		11,933	9,391
Total non-current liabilities	1,037,866	1,113,325	1,092,568
Shareholders' equity			
Controlling interest shareholders' equity:			
Preferred stock, without par value, 10,000 shares authorized			
Common stock, without par value, 200,000 shares authorized	413,683	452,243	448,589

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Accumulated other comprehensive income	60,717	50,592	8,111
Retained earnings	575,619	419,086	384,056
	1,050,019	921,921	840,756
Noncontrolling interest	1,863	548	548
Total shareholders' equity	1,051,882	922,469	841,304
	\$ 2,543,481	\$ 2,536,355	\$ 2,371,884
Supplemental Disclosures of Balance Sheet Information Related to Continuing Operations			
Allowance for doubtful accounts	\$ 10,818	\$ 11,394	\$ 9,750
Working capital	\$ 692,932	\$ 620,324	\$ 572,644
Preferred stock, shares issued and outstanding			
Common stock, shares issued and outstanding	91,356	92,209	92,171

See accompanying notes to condensed consolidated financial statements.

Table of Contents**PERRIGO COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

	Year-to-Date	
	2010	2009
Cash Flows From (For) Operating Activities		
Net income	\$ 173,098	\$ 108,848
Adjustments to derive cash flows		
Write-off of in-process research and development	14,000	279
Depreciation and amortization	53,673	50,906
Restructuring	7,474	
Asset impairments		16,704
Share-based compensation	11,184	7,322
Gain on sale of business	(750)	
Income tax benefit from exercise of stock options	(905)	(2,673)
Excess tax benefit of stock transactions	(5,730)	(2,970)
Deferred income taxes (credit)	(18,108)	811
Sub-total	233,936	179,227
Changes in operating assets and liabilities, net of asset and business acquisitions and disposition		
Accounts receivable	10,172	(6,053)
Inventories	(33,660)	(9,007)
Accounts payable	(32,124)	(4,219)
Payroll and related taxes	18,760	(21,258)
Accrued customer programs	(1,005)	(580)
Accrued liabilities	(8,246)	(16,907)
Accrued income taxes	32,476	9,109
Other	(4,108)	(28,729)
Sub-total	(17,735)	(77,644)
Net cash from operating activities	216,201	101,583
Cash Flows (For) From Investing Activities		
Cash acquired in asset exchange		2,115
Proceeds from sale of business	35,980	
Acquisitions of businesses, net of cash acquired	(58,885)	(88,248)
Acquired research and development	(14,000)	
Acquisitions of assets	(10,262)	(1,000)
Additions to property and equipment	(32,233)	(32,020)
Net cash for investing activities	(79,400)	(119,153)
Cash Flows (For) From Financing Activities		
Repayments of short-term debt, net		(13,736)
Repayments of long-term debt	(67,771)	(31,380)
Bridge loan financing costs	(3,500)	
Excess tax benefit of stock transactions	5,730	2,970
Issuance of common stock	14,593	9,434
Repurchase of common stock	(70,972)	(62,347)
Cash dividends	(16,566)	(14,786)

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Net cash for financing activities	(138,486)	(109,845)
Effect of exchange rate changes on cash	472	6,632
Net decrease in cash and cash equivalents	(1,213)	(120,783)
Cash and cash equivalents of continuing operations, beginning of period	316,133	318,599
Cash balance of discontinued operations, beginning of period	4	5
Cash and cash equivalents, end of period	314,924	197,821
Less cash balance of discontinued operations, end of period		(4)
Cash and cash equivalents of continuing operations, end of period	\$ 314,924	\$ 197,817
Supplemental Disclosures of Cash Flow Information		
Cash paid/received during the period for:		
Interest paid	\$ 31,928	\$ 33,829
Interest received	\$ 15,851	\$ 18,872
Income taxes paid	\$ 50,185	\$ 60,105
Income taxes refunded	\$ 1,159	\$ 3,627

See accompanying notes to condensed consolidated financial statements.

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PERRIGO COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 27, 2010

(in thousands, except per share amounts)

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and other adjustments) considered necessary for a fair presentation have been included. The Company has reclassified certain balance sheet amounts in the prior years primarily related to discontinued operations to conform to the current year presentation. The amounts reclassified had no effect on retained earnings or net income.

In March 2009, the Company committed to a plan to sell its Israel Consumer Products business. The financial results of this business have been classified as discontinued operations in the condensed consolidated statements of income for all periods presented. As of February 26, 2010, the sale was completed resulting in a pre-tax gain on the sale of \$750, which is included in income from discontinued operations in the condensed consolidated statements of income for fiscal 2010. See Note 3 for additional information regarding discontinued operations. Unless otherwise noted, amounts and disclosures throughout the Notes to Condensed Consolidated Financial Statements relate to the Company's continuing operations.

Operating results for the nine months ended March 27, 2010 are not necessarily indicative of the results that may be expected for a full 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 27, 2009.

Recently Issued Accounting Standards

In February 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-09, Subsequent Events (Accounting Standard Codification (ASC) Topic 855) - Amendments to Certain Recognition and Disclosure Requirements. The amendments in the ASU remove the requirement for a Securities and Exchange Commission (SEC) filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. This ASU was effective upon issuance, except as it relates to conduit debt obligors. The Company adopted the guidance in this ASU in the third quarter of fiscal 2010 and accordingly removed the related disclosure from Note 1 under *Basis of Presentation*. Since this guidance relates specifically to disclosures, it had no impact on the Company's condensed consolidated results of operations or financial position.

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (ASC Topic 820): Improving Disclosures about Fair Value Measurements (ASU 2010-06). This ASU amends ASC Topic 820 to require an entity to: 1) disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and 2) present separate information for Level 3 activity pertaining to gross purchases, sales, issuances, and settlements. The Company adopted the new disclosure

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requirements in the third quarter of fiscal 2010, except for the disclosures about purchases, sales, issuances and settlements in the Level 3 reconciliation, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adopted disclosures have been provided in Note 5.

In December 2009, the FASB issued ASU 2009-16, *Transfers and Servicing (ASC Topic 860) - Accounting for Transfers of Financial Assets (ASU 2009-16)*. ASU 2009-16 revises previous authoritative guidance related to accounting for transfers of financial assets, and will require more disclosures about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. Among other things, ASU 2009-16 eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets and enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity's continuing involvement in transferred financial assets. ASU 2009-16 is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. Early application is not permitted. The Company does not expect ASU 2009-16 to have a material effect on its condensed consolidated results of operations or its financial position upon adoption.

In October 2009, the FASB issued ASU 2009-13, *Revenue Recognition (ASC Topic 605) Multiple-Deliverable Revenue Arrangements (ASU 2009-13)*. ASU 2009-13 amends the criteria in ASC Subtopic 605-25, *Revenue Recognition Multiple-Element Arrangements*, for separating consideration in multiple-deliverable arrangements. This Update addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. ASU 2009-13 modifies the requirements for determining whether a deliverable can be treated as a separate unit of accounting by removing the criteria that verifiable and objective evidence of fair value exists for the undelivered elements. This guidance eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: a) vendor-specific objective evidence; b) third-party evidence; or c) estimates. In addition, this guidance significantly expands required disclosures related to a vendor's multiple-deliverable revenue arrangements. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company has chosen not to early adopt ASU 2009-13; therefore, the effects of the Company's adoption of this ASU will depend upon the extent and magnitude of revenue arrangements the Company enters into or materially modifies after June 26, 2010.

In August 2009, the FASB issued ASU 2009-05, *Fair Value Measurements and Disclosures (ASC Topic 820) Measuring Liabilities at Fair Value (ASU 2009-05)*. ASU 2009-05 amends ASC Subtopic 820-10, *Fair Value Measurements and Disclosures Overall*, for the fair value of liabilities. This Update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value of such liability using one or more of the techniques prescribed by the Update. The guidance in this ASU was effective for the Company in the second quarter of fiscal 2010 and did not have a material effect on its condensed consolidated results of operations or its financial position.

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a Replacement of FASB Statement No. 162 (SFAS 168)*. SFAS 168 establishes the Codification as the single source of authoritative nongovernmental U.S. GAAP. The Codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents are superseded and all other accounting literature not included in the Codification is considered non-authoritative. The Codification, which changes the referencing of financial standards, is effective for financial statements for interim or annual financial periods ending after September 15, 2009. The Company adopted the Codification at the beginning of its first quarter of fiscal 2010 and has included the new Codification references in this Form 10-Q.

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In April 2009, the FASB issued ASC 825-10-50 to require disclosures about the fair value of financial instruments in interim financial statements, as well as in annual financial statements. The Company adopted ASC 825-10-50 effective June 28, 2009 and applied its requirements on a prospective basis. Since this guidance relates specifically to disclosures, it had no impact on the Company's condensed consolidated results of operations or financial position. See Note 5 for additional information related to the Company's adoption of ASC 825-10-50.

Also in April 2009, the FASB issued ASC 805-20-25 on the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This guidance is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted ASC 805-20-25 effective June 28, 2009. Accordingly, the effects of the Company's adoption of this guidance will depend upon the extent and magnitude of acquisitions after June 27, 2009.

In June 2008, the FASB issued ASC 260-10-45 which provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. This guidance is effective for fiscal years beginning after December 15, 2008. The Company adopted ASC 260-10-45 effective at the beginning of its first quarter of fiscal 2010. Dividend equivalents on the Company's unvested share-based payment transactions are forfeited if the corresponding shares do not vest; therefore, the Company's adoption of this guidance did not have any impact on its condensed consolidated financial statements.

In April 2008, the FASB issued ASC 350-30-35 amending the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this guidance is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset under ASC 360-10-35-49 and other U.S. GAAP. ASC 350-30-35 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. This guidance was effective at the beginning of the Company's first quarter of fiscal 2010 and did not have an effect on its condensed consolidated results of operations or its financial position as the Company did not renew or extend assumptions related to useful lives of its intangible assets.

In February 2008, the FASB issued ASC 820-10-65, which delayed the effective date of ASC Subtopic 820-10 for certain nonfinancial assets and liabilities that are recognized at fair value on a nonrecurring basis (at least annually) until fiscal years beginning after November 15, 2008. The Company's nonfinancial assets and liabilities that are recognized at fair value on a nonrecurring basis consist primarily of goodwill and other indefinite-lived intangible assets, as well as intangible assets subject to amortization. This guidance was effective at the beginning of the Company's first quarter of fiscal 2010, and the required disclosures have been provided in Note 5.

In December 2007, the FASB issued ASC Topic 805, Business Combinations, to further enhance the accounting and financial reporting related to business combinations. ASC Topic 805 establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. ASC Topic 805 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. ASC Topic 805 became effective at the beginning of the Company's first quarter of fiscal 2010; therefore, the effects of the Company's adoption of ASC Topic 805 will depend upon the extent and magnitude of acquisitions after June 27, 2009. See Note 2 for business acquisitions the Company acquired in the nine months of fiscal 2010. ASC Topic 805 requires transaction costs associated with a business combination to be expensed in the period of the acquisition. These costs were previously capitalized in accordance with the existing accounting requirements at the time of the acquisition. The Company expects the most significant effect for the Company to result from the new requirement to capitalize in-process research and development costs, which were previously required to be expensed in accordance with the existing accounting requirements at the time of the acquisition and have been material in prior acquisitions.

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In December 2007, the FASB issued ASC Topic 810, *Consolidation*, to create accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This guidance establishes accounting and reporting standards that require (i) the ownership interest in subsidiaries held by parties other than the parent to be clearly identified and presented in the consolidated balance sheet within equity, but separate from the parent's equity; (ii) the amount of consolidated net income attributable to the parent and the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of income; (iii) changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently; (iv) when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary to be initially measured at fair value; and (v) entities to provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. ASC Topic 810 applies to fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, and prohibits early adoption. This guidance was effective at the beginning of the Company's first quarter of fiscal 2010 and did not have a material effect on its condensed consolidated results of operations or its financial position.

In December 2007, the FASB ratified ASC Subtopic 808-10, *Collaborative Agreements - Overall*, which focuses on defining a collaborative agreement, as well as the accounting for transactions between participants in a collaborative agreement and between the participants in the arrangement and third parties. The guidance concluded that both types of transactions should be reported in each participant's respective income statement. ASC Subtopic 808-10 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and should be applied retrospectively to all prior periods presented for all collaborative arrangements existing as of the effective date. This guidance was effective at the beginning of the Company's first quarter of fiscal 2010. See Note 17 for additional information related to the Company's adoption of this guidance.

NOTE 2 ACQUISITIONS*Acquired Research and Development*

On September 21, 2009, within the Rx Pharmaceuticals segment, the Company's Israeli business acquired the Abbreviated New Drug Application (ANDA) for clindamycin phosphate (1%) and benzoyl peroxide (5%) gel from KV Pharmaceutical for \$14,000 in cash and a \$2,000 milestone payment to be made upon the successful completion of a contingency. This product is the equivalent to Stiefel Laboratories (a subsidiary of GlaxoSmithKline) Duac[®] gel, indicated for the topical treatment of inflammatory acne vulgaris. Excluding the milestone payment, the full amount of the purchase price, which related to acquired research and development, was capitalized and immediately written off as in-process research and development in the second quarter of fiscal 2010 in the Company's Rx Pharmaceuticals segment.

Asset Acquisitions

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

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

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

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

At the time of the acquisition, a step-up in the value of inventory of \$606 was recorded in the allocation of the purchase price based on valuation estimates, of which \$212 and \$344 was charged to cost of sales in the first and second quarters of fiscal 2010, respectively, as the inventory was sold. The remainder of the step-up in value was charged to cost of sales in the third quarter of fiscal 2010 as the inventory was sold.

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

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

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

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

At the time of the acquisition, a step-up in the value of inventory of \$417 was recorded in the allocation of the purchase price based on valuation estimates, of which \$153 was charged to cost of sales in the second quarter of fiscal 2010 as the inventory was sold. The remainder of the step-up in value was charged to cost of sales in the third quarter of fiscal 2010 as the inventory was sold.

Pending Future Business Acquisition

PBM Holdings, Inc. In March 2010, the Company and PBM Holdings, Inc. (PBM), the leading store brand infant formula manufacturer, announced that they had signed a definitive merger agreement for \$808,000 in cash. As of the end of the third quarter of fiscal 2010, the Company incurred approximately \$3,200 of acquisition costs, which were expensed in operations in the third quarter of fiscal 2010. Upon completion of the transaction, the Company will acquire 100% of the shares of PBM. PBM, headquartered in Gordonsville, Virginia, manufactures and distributes OTC store brand infant formula and baby foods sold by leading retailers in the mass, club, grocery and drug channels in the United States, Canada, Mexico and China. The acquisition is expected to be completed in the Company's fourth quarter of fiscal 2010.

Table of Contents*Business Acquisitions*

The Company completed various business acquisitions during the year-to-date fiscal 2010 period and the prior year period as summarized below. Pro forma results of operations have not been presented because the aggregate effects of the completed acquisitions were not material to the Company's condensed consolidated financial statements.

Fiscal 2010

Orion Laboratories Pty Ltd. On March 8, 2010, the Company acquired 100% of the outstanding shares of privately-held Orion Laboratories Pty Ltd. (Orion) for \$49,497 in cash. As of the end of the third quarter of fiscal 2010, the Company incurred approximately \$600 of acquisition costs, which were expensed in operations in the third quarter of fiscal 2010. Located near Perth, Western Australia, Orion is a leading supplier of OTC store brand pharmaceutical products in Australia and New Zealand. In addition, Orion manufactures and distributes pharmaceutical products supplied to hospitals in Australia. The acquisition of Orion expands the Company's global presence and product portfolio into Australia and New Zealand. The acquisition was accounted for under the purchase method of accounting, and the related assets acquired and liabilities assumed were recorded at fair value. The Orion balance sheet is included in the Company's condensed consolidated balance sheet as of March 27, 2010. The operating results for Orion from the date of acquisition to the end of the third quarter were immaterial and are included in the Consumer Healthcare segment of the Company's consolidated results of operations.

The preliminary allocation of the \$49,497 purchase price through March 27, 2010 was:

Cash	\$ 671
Accounts receivable	3,146
Inventory	4,484
Property and equipment	11,490
Other assets	432
Goodwill	18,051
Intangible assets	15,600
 Total assets acquired	 53,874
 Accounts payable	 2,247
Other current liabilities	957
Taxes payable	1,173
 Total liabilities assumed	 4,377
 Net assets acquired	 \$ 49,497

This preliminary purchase price is subject to adjustment once final book/tax basis differences and a post-closing working capital adjustment have been finalized. These matters are anticipated to be resolved in the fourth quarter of fiscal 2010.

The excess of the purchase price over the fair value of net assets acquired, amounting to \$18,051, was recorded as goodwill in the condensed consolidated balance sheet and was assigned to the Company's Consumer Healthcare segment. Goodwill is not amortized for financial reporting or tax purposes. See Note 7 regarding the timing of the Company's annual goodwill impairment testing.

Intangible assets acquired in the acquisition were valued as follows:

Product formulations	\$ 1,182
Customer relationships	12,000
Non-competition agreements	2,418

Total intangible assets acquired

\$ 15,600

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

At the time of the acquisition, a step-up in the value of inventory of \$495 was recorded in the allocation of the purchase price based on valuation estimates, all of which is expected to be charged to cost of sales in the fourth quarter of fiscal 2010 as the inventory is sold. In addition, fixed assets were written up by \$1,132 to their estimated fair market value based on the cost approach. This additional step-up in value will be depreciated over the estimated useful lives of the assets.

Vedants Drug & Fine Chemicals Private Ltd. To further improve the long-term cost position of its API business, on August 6, 2009, the Company acquired an 85% stake in Vedants Drug & Fine Chemicals Private Limited (Vedants), an API manufacturing facility in India, for \$11,500 in cash. The facility, located approximately 30 miles outside of Mumbai, is currently under construction and will manufacture the Company's current and future high-volume API products, as well as expand the Company's vertical integration of Rx and future candidate Rx-to-OTC switch products. Manufacturing of API at this facility is expected to begin during fiscal 2011 and will include certain API products currently manufactured in Israel and that had been manufactured in Germany. The acquisition was accounted for using the purchase method, and the related assets acquired and liabilities assumed were recorded at fair value. The operating results for Vedants are included in the API segment of the Company's condensed consolidated results of operations for the period from August 6 to the end of the Company's third fiscal quarter. Operations related to the noncontrolling interest are immaterial.

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

Cash	\$ 1,441
Accounts receivable	168
Inventory	2
Property and equipment	8,436
Goodwill	4,183
 Total assets acquired	 14,230
 Accounts payable	 171
Other liabilities	1,289
Noncontrolling interest	1,270
 Total liabilities and equity assumed	 2,730
 Net assets acquired	 \$ 11,500

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

Fiscal 2009

Unico Holdings, Inc. On November 13, 2008, the Company acquired 100% of the outstanding shares of privately-held Unico Holdings, Inc. (Unico) for \$51,853 in cash, including \$164 of acquisition costs. Based in Lake Worth, Florida, Unico was the leading manufacturer of store brand pediatric electrolytes, enemas and feminine hygiene products for retail customers in the U.S. The acquisition of Unico expands the Company's global presence and product portfolio in the U.S. The acquisition was accounted for under the purchase method of accounting. The operating results for Unico are included in the Consumer Healthcare segment of the Company's consolidated results of operations beginning in the second quarter of fiscal 2009.

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The purchase price of \$51,853 was allocated as follows:

Cash	\$ 1,414
Accounts receivable	4,275
Inventory	5,344
Property and equipment	4,650
Other assets	2,056
Goodwill	23,559
Intangible assets	26,191
 Total assets acquired	 67,489
 Accounts payable	 3,293
Other current liabilities	914
Deferred tax liabilities	11,429
 Total liabilities assumed	 15,636
 Net assets acquired	 \$ 51,853

The purchase agreement allowed for a post-closing working capital adjustment to determine a final purchase price. During the third quarter of fiscal 2009, the working capital adjustment was settled, which resulted in a minor adjustment to the purchase price.

The excess of the purchase price over the fair value of net assets acquired, amounting to \$23,559, was recorded as goodwill in the consolidated balance sheet and was assigned to the Company's Consumer Healthcare segment. Goodwill is not amortized for financial reporting or tax purposes. See Note 7 regarding the timing of the Company's annual goodwill impairment testing.

Intangible assets acquired in the acquisition were valued as follows:

Customer relationships	\$ 24,800
Non-competition agreements	1,391
 Total intangible assets acquired	 \$ 26,191

Management assigned fair value to the customer relationships and non-competition agreements through the discounted cash flow method and the lost income method, respectively. Customer relationships are based on 20-year useful lives and are amortized on an accelerated basis consistent with projected revenues over the lives of the relationships. There are three non-competition agreements; two agreements are based on a five-year useful life and the other agreement is based on a two-year useful life. All non-competition agreements are amortized on a straight-line basis.

At the time of the acquisition, a step-up in the value of inventory of \$1,062 was recorded in the allocation of the purchase price based on valuation estimates, all of which was charged to cost of sales in the second quarter of fiscal 2009 as the inventory was sold. In addition, fixed assets were written up by \$946 to their estimated fair market value based on a valuation method that included both the cost and market approaches. This additional step-up in value is being depreciated over the estimated useful lives of the assets.

Laboratorios Diba, S.A. On October 6, 2008, the Company announced that it acquired 100% of the outstanding shares of privately-held *Laboratorios Diba, S.A.* (Diba) for \$24,500 in cash, including \$1,000 of acquisition costs. Based in Guadalajara, Mexico, Diba was a store brand manufacturer of OTC and prescription pharmaceuticals, including antibiotics, hormonals and ophthalmics. The acquisition of Diba expands the Company's global presence

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and product portfolio in Mexico. The acquisition was accounted for under the purchase method of accounting. The operating results for Diba were included in the Consumer Healthcare segment of the Company's consolidated results of operations beginning in the second quarter of fiscal 2009.

The purchase price of \$24,500 was allocated as follows:

Cash	\$ 1,530
Accounts receivable	2,715
Inventory	3,878
Property and equipment	5,639
Other assets	746
Goodwill	8,181
Intangible assets	5,047
 Total assets acquired	 27,736
 Accounts payable	 529
Other liabilities	1,527
Deferred tax liabilities	1,180
 Total liabilities assumed	 3,236
 Net assets acquired	 \$ 24,500

The excess of the purchase price over the fair value of net assets acquired, amounting to \$8,181, was recorded as goodwill in the consolidated balance sheet and was assigned to the Company's Consumer Healthcare segment. Goodwill is not amortized for financial reporting or tax purposes. See Note 7 regarding the timing of the Company's annual goodwill impairment testing.

Intangible assets acquired in the acquisition were valued as follows:

Customer relationships	\$ 1,717
Developed product technology	1,276
Trade name and trademarks	1,204
Non-competition agreements	571
In-process research and development	279
 Total intangible assets acquired	 \$ 5,047

Management assigned fair value to the identifiable intangible assets through a combination of the relief from royalty method, discounted cash flow method and lost income method. Customer relationships are based on eight-year useful lives and are amortized on an accelerated basis consistent with projected revenues over the lives of the relationships. The average estimated useful life of the developed product technology is eight years. Trade name and trademarks were determined to have indefinite useful lives. Accordingly, no amortization has been recorded for these intangible assets. The Company, however, reviews them for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the assets might be impaired, and adjusts them as necessary. There are two non-competition agreements, each based on a five-year useful life and amortized on a straight-line basis. The amount allocated to in-process research and development was charged to operations as of the acquisition date. Management assigned fair values to in-process research and development related to ongoing projects using a relief from royalty method on forecasted revenues directly related to the products expected to result from the subject research and development. Assumptions used in the in-process research and development valuation included a required rate of return of 16% and commencement of net cash inflows that varied between one and two years, depending on the project. As of the date of acquisition, the technological feasibility of the acquired in-process technology had not yet been established and the technology had no future alternative uses and, therefore, was required to be expensed as of the acquisition date. The Company estimates that the amount it will incur in additional costs

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related to the efforts necessary to develop the acquired, incomplete technology into commercially viable products will be immaterial.

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At the time of the acquisition, a step-up in the value of inventory of \$1,806 was recorded in the allocation of the purchase price based on valuation estimates. As of March 28, 2009, the step-up in inventory value was charged to cost of sales as the inventory was sold. In addition, fixed assets were written up by \$663 to their fair market value based on a valuation method that included both the cost and market approaches. This additional step-up in value is being depreciated over the estimated useful lives of the assets.

J.B. Laboratories, Inc. On September 16, 2008, the Company acquired 100% of the outstanding shares of J.B. Laboratories, Inc. (JBL), a privately-held contract manufacturer of OTC and nutrition products for leading healthcare suppliers, for \$42,962, including debt assumed. The Company acquired JBL to obtain additional FDA-compliant production capacity to help service current and future customer needs. The Company paid \$14,939 in cash, including acquisition costs of \$436, and assumed \$28,023 of existing debt, of which \$25,293 was repaid immediately and the remaining \$2,730 was repaid in the second quarter of fiscal 2009. The acquisition was accounted for under the purchase method of accounting. The operating results for JBL were included in the Consumer Healthcare segment of the Company's consolidated results of operations beginning in the second quarter of fiscal 2009.

The purchase price of \$42,962 was allocated as follows:

Cash	\$ 743
Accounts receivable	5,989
Inventory	11,747
Property and equipment	34,444
Other assets	923
Intangible assets	1,575
Goodwill	5,018
 Total assets acquired	 60,439
 Accounts payable	 10,207
Other current liabilities	2,075
Notes payable	11,006
Long-term debt	17,017
Deferred tax liabilities	5,429
 Total liabilities assumed	 45,500
 Net assets acquired	 14,939
JBL debt assumed on the closing date	28,023
 Total purchase consideration	 \$ 42,962

In connection with the acquisition, the Company accrued \$795 for estimated restructuring costs that were included in the allocation of the purchase price. During the third quarter of fiscal 2009, the Company finalized the restructuring plan, which resulted in an adjustment to the restructuring accrual. The restructuring costs consisted of employee termination benefits for 12 employees, all of which have been paid as of December 26, 2009. The activity related to the employee termination benefits was as follows:

	Fiscal 2009 Restructuring Employee Termination
Balance at September 27, 2008	\$ 795
Payments	(447)
Adjustments	(264)
 Balance at June 27, 2009	 84

Payments

84

Balance at December 26, 2009

\$

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The excess of the purchase price over the fair value of net assets acquired, amounting to \$5,018, was recorded as goodwill in the consolidated balance sheet and has been assigned to the Company's Consumer Healthcare segment. Goodwill is not amortized for financial reporting or tax purposes. See Note 7 regarding the timing of the Company's annual goodwill impairment testing.

Intangible assets acquired in the acquisition were valued as follows:

Customer relationships	\$ 1,300
Non-competition agreements	275
Total intangible assets acquired	\$ 1,575

Management assigned fair value to the customer relationships and non-competition agreements through the discounted cash flow method and the lost income method, respectively. Customer relationships are based on 15-year useful lives and are amortized on an accelerated basis consistent with projected revenues over the lives of the relationships. There are two non-competition agreements; one agreement is based on a five-year useful life and the other agreement is based on a two-year useful life. Both non-competition agreements are amortized on a straight-line basis.

At the time of the acquisition, a step-up in the value of inventory of \$358 was recorded in the allocation of the purchase price based on valuation estimates, all of which was charged to cost of sales in the second quarter of fiscal 2009 as the inventory was sold. In addition, fixed assets were written up by approximately \$4,200 to their fair market value based on a valuation method that included both the cost and market approaches. This additional step-up in value is being depreciated over the estimated useful lives of the assets.

Brunel Healthcare Ltd. On June 18, 2008, the Company's U.K. subsidiary acquired the assets and related liabilities of Brunel Healthcare Ltd. (Brunel), a producer of OTC healthcare products, from NeutraHealth plc in exchange for the Company's net assets of its vitamins, minerals and supplements (VMS) business. The acquisition was accounted for in accordance with ASC Topic 845, Nonmonetary Transactions. The loss on exchange of the Company's U.K. VMS business was \$639. The assets of Brunel were recorded at their fair value, allocated as follows:

Cash	\$ 995
Accounts receivable	849
Inventory	812
Intangible asset - Customer relationships	15,159
Total assets acquired	17,815
Accounts payable	386
Other current liabilities	5,280
Total liabilities assumed	5,666
Net allocated fair value	\$ 12,149

Customer relationships are based on 15-year useful lives and are amortized on an accelerated basis consistent with projected revenues over the lives of the relationships. The operating results for Brunel are included in the Consumer Healthcare segment of the Company's consolidated results of operations beginning in the first quarter of fiscal 2009, which, for consolidation purposes, is consistent with the reporting period for the Company's existing U.K. operations.

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

On November 2, 2009, the Company announced that it had signed a definitive agreement to sell the Israel Consumer Products business to Emilia Group, for approximately \$55,000, of which approximately \$11,000 was to be contingent upon satisfaction of contingency factors specified in the agreement. On February 26, 2010, the sale to Emilia Group was completed for approximately \$47,000, of which approximately \$11,000 is contingent upon satisfaction of contingency factors specified in the agreement. The change from the preliminary purchase price to the closing price was due to post-signing working capital adjustments as defined by the agreement. The final purchase price is subject to post-closing working capital adjustments as defined by the agreement. The Company recorded a pre-tax gain on the sale of \$750, which is included in income from discontinued operations in the condensed consolidated statements of income for fiscal 2010. Under the terms of the agreement, the Company will provide distribution and support services for the importation of private label cosmetics from this business into the U.S. market, as well as back-office transition services in Israel for up to 12 months after the close of the transaction. These services will be fully transferred to Emilia Group by the end of the third quarter of fiscal 2011.

The Company has reflected the results of this business as discontinued operations in the condensed consolidated statements of income for all periods presented. The assets and liabilities of this business are reflected as assets and liabilities of discontinued operations in the condensed consolidated balance sheets for all periods presented. The operating results related to the support and distribution services will be classified as discontinued operations as the cash flows received for providing the services are immaterial to the Company, and the Company has no significant continuing involvement in the operations of the Israel Consumer Products.

Results of discontinued operations were as follows:

	Third Quarter		Year-to-Date	
	2010	2009	2010	2009
Net sales	\$ 24,662	\$ 18,036	\$ 68,003	\$ 66,999
Income (loss) before income taxes (including gain on sale of \$750)	\$ 967	\$ (1,252)	\$ (874)	\$ (1,195)
Income tax benefit (expense)	(199)	680	(427)	1,225
Income (loss) from discontinued operations, net of tax	\$ 768	\$ (572)	\$ (1,301)	\$ 30

The assets and liabilities classified as discontinued operations as of March 27, 2010, June 27, 2009 and March 28, 2009 were as follows:

	March 27, 2010	June 27, 2009	March 28, 2009
Cash	\$	\$ 4	\$ 4
Accounts receivable, net	4,378	24,438	20,246
Inventories	4,892	26,207	24,720
Prepaid expenses and other current assets	237	1,050	826
Current assets of discontinued operations	\$ 9,507	\$ 51,699	\$ 45,796
Property and equipment, net	\$	\$ 13,567	\$ 12,656
Other intangible assets, net		3,572	3,656
Other non-current assets		4,715	5,869
Non-current assets of discontinued operations	\$	\$ 21,854	\$ 22,181

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Accounts payable	\$ 7,892	\$ 14,637	\$ 13,088
Accrued payroll and other accrued liabilities	8,546	4,983	5,887
Deferred taxes	925		
Current liabilities of discontinued operations	\$ 17,363	\$ 19,620	\$ 18,975
Deferred taxes and other non-current liabilities	\$	\$ 11,933	\$ 9,391
Non-current liabilities of discontinued operations	\$	\$ 11,933	\$ 9,391

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As of March 27, 2010, the remaining assets and liabilities recorded in discontinued operations relate to distribution and support services that will cease within a year, as specified in the transaction agreement.

NOTE 4 EARNINGS (LOSS) PER SHARE

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

	Third Quarter		Year-to-Date	
	2010	2009	2010	2009
Numerator:				
Income from continuing operations	\$ 60,138	\$ 46,469	\$ 174,399	\$ 108,818
Income (loss) from discontinued operations, net of tax	768	(572)	(1,301)	30
Net income used for both basic and diluted EPS	\$ 60,906	\$ 45,897	\$ 173,098	\$ 108,848
Denominator:				
Weighted average shares outstanding for basic EPS	91,179	91,967	91,428	92,251
Dilutive effect of share-based awards	1,410	1,186	1,391	1,496
Weighted average shares outstanding for diluted EPS	92,589	93,153	92,819	93,747

Share-based awards outstanding that were anti-dilutive were 31 and 497 for the third quarter of fiscal 2010 and 2009, respectively. Year-to-date share-based awards outstanding that were anti-dilutive were 32 and 208 for fiscal 2010 and 2009, respectively. These share-based awards were excluded from the diluted EPS calculation.

NOTE 5 FAIR VALUE MEASUREMENTS

ASC Topic 820, Fair Value Measurements and Disclosures (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. As required, effective June 29, 2008 and June 28, 2009, the Company adopted the provisions of Topic 820 for financial assets and liabilities and nonfinancial assets and liabilities, respectively. This Topic 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 table summarizes the valuation of the Company's instruments by the above pricing categories as of March 27, 2010:

	Fair Value Measurements as of March 27, 2010 Using:			
	Total as of March 27, 2010	Quoted Prices In Active Markets (Level 1)	Prices With Other Observable Inputs (Level 2)	Prices With Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$ 134,166	\$ 134,166	\$	\$
Investment securities	5,523	1		5,522
Treasury lock agreements	2,700		2,700	
Funds associated with Israeli post employment benefits	15,374		15,374	
Total	\$ 157,763	\$ 134,167	\$ 18,074	\$ 5,522
Liabilities:				
Foreign currency forward contracts, net	\$ 1,061	\$	\$ 1,061	\$
Total	\$ 1,061	\$	\$ 1,061	\$

The carrying amounts of the Company's financial instruments, consisting of cash and cash equivalents, investment securities, accounts receivable, accounts payable and variable rate long-term debt, approximate their fair value. As of March 27, 2010, the carrying value and fair value of the Company's fixed rate long-term debt was \$600,000 and \$614,936, respectively. The carrying value and fair value of the restricted cash deposit related to the letter of undertaking was \$400,000 and \$412,406, respectively, as of March 27, 2010. Fair values were calculated by discounting the future cash flows of the financial instruments to their present value, using interest rates currently offered for borrowings and deposits of similar nature and remaining maturities. No significant transfers between Level 1 and Level 2 occurred during the three months ended March 27, 2010. The Company's policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period.

As of March 27, 2010, the Company had \$15,374 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 investment securities include auction rate securities (ARS) totaling \$18,000 in par value. ARS are privately placed variable rate debt instruments whose interest rates are reset within a contractual range, approximately every 7 to 35 days. Historically, the carrying value of ARS approximated their fair value due to the frequent resetting of the interest rates at auction. As a result of the tightening of the credit markets beginning in calendar 2008, there was no liquid market for these securities for an extended period of time. Recent indications are that a market is starting to materialize for these securities, but at a much reduced level than the pre-2008 period. Although the Company continues to earn and collect interest on these investments at the maximum contractual rate, the estimated fair value of ARS cannot be determined by the auction process until liquidity is restored to these markets.

In the absence of a liquid trading market, the Company based its estimates of the fair market value of the ARS it held on, among other things, estimates provided by Lehman Brothers, the firm that managed these investments for the Company. During the third quarter of fiscal 2008, the Company recorded an unrealized loss of \$3,453, net of tax, in other comprehensive income (OCI). The amount of the write-down was based on, among other things, estimates provided by Lehman Brothers, the firm managing these investments, which subsequently filed for bankruptcy. At that time, the companies that issued these securities continued to maintain their AAA

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counterparty credit rating and pay the maximum interest contractually required. In addition, beginning in the third quarter of fiscal 2008, the Company 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.

In the second quarter of fiscal 2009, after Lehman Brothers filed for bankruptcy and ceased to provide estimates to the Company of the value of the ARS, the Company hired an independent third-party valuation firm to assist the Company in estimating the fair value of these securities using a discounted cash flow analysis and an assessment of secondary markets. Based on this estimation and other factors, the Company concluded that an other-than-temporary impairment loss had occurred. The primary drivers of this conclusion were the magnitude of the calculated impairment and the fact that the credit ratings of the companies that had issued these securities had declined since the third quarter of fiscal 2008. Accordingly, the Company recorded an other-than-temporary impairment loss of \$15,104 within other expense in its condensed consolidated statement of income for the second quarter of fiscal 2009. Of this loss, \$13,542 was attributable to a decline in market value while \$1,562 was due to a foreign currency transaction loss as these U.S. dollar-denominated securities are held by the Company's Israeli subsidiary, which has a shekel functional currency.

During the fourth quarter of fiscal 2009, the Company received an updated estimate for the current fair value of these securities from an independent third-party valuation firm, using a discounted cash flow analysis and an assessment of secondary markets. Based on this estimation and other factors, the Company recorded an unrealized gain of \$503, net of tax, in OCI.

Also during the fourth quarter of fiscal 2009, the Company engaged the services of an independent third-party valuation firm to assist the Company in determining the noncredit component of the previously recognized other-than-temporary impairment related to its ARS. Accordingly, the Company recorded a \$5,000 adjustment from retained earnings to accumulated OCI to reclassify the noncredit component of the \$15,104 other-than-temporary impairment charge it recognized in the second quarter of fiscal 2009.

At December 26, 2009, based on updated estimates of the current fair value of these securities from an independent third-party valuation firm, using a discounted cash flow analysis and an assessment of secondary markets, as well as other factors, the Company determined that the fair value of the securities remained consistent with the prior period. As a result, these securities remained at their recorded value of \$4,961. The Company continued to earn and collect interest on these investments at the maximum contractual rate.

At March 27, 2010, these securities were recorded at a fair value of \$4,961. The Company continued to earn and collect interest on these investments at the maximum contractual rate. The Company will continue to monitor the credit worthiness of the companies that issued these securities and other appropriate factors and make any adjustments it deems necessary to reflect the fair value of these securities.

In addition to ARS, the Company holds certain collateralized debt obligations as of March 27, 2010, totaling \$561 backed primarily by U.S. Treasury obligations.

The following table presents a rollforward of the assets measured at fair value using unobservable inputs (Level 3) at March 27, 2010:

	Investment Securities (Level 3)
Assets:	