

PERRIGO CO  
Form 10-Q  
May 07, 2009  
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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 28, 2009

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)

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**Not Applicable**

**(Former name, former address and former fiscal year,  
if changed since last report)**

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a 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 May 1, 2009, the registrant had 92,186,708 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 28, 2008 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	
	2009	2008	2009	2008
Net sales	\$ 505,902	\$ 480,640	\$ 1,498,653	\$ 1,255,639
Cost of sales	356,310	330,337	1,066,509	873,004
<b>Gross profit</b>	<b>149,592</b>	<b>150,303</b>	<b>432,144</b>	<b>382,635</b>
Operating expenses				
Distribution	6,167	6,525	18,513	18,450
Research and development	17,890	19,160	56,036	51,623
Selling and administration	53,638	61,470	165,533	154,949
Subtotal	77,695	87,155	240,082	225,022
Write-off of in-process research and development		2,786	279	2,786
Restructuring		348		348
<b>Total</b>	<b>77,695</b>	<b>90,289</b>	<b>240,361</b>	<b>228,156</b>
Operating income	71,897	60,014	191,783	154,479
Interest, net	6,966	3,686	20,465	12,009
Other (income) expense, net	1,160	353	2,565	(905)
Investment impairment			15,104	
Income from continuing operations before income taxes	63,771	55,975	153,649	143,375
Income tax expense	17,302	15,745	44,831	35,338
Income from continuing operations	46,469	40,230	108,818	108,037
Income (loss) from discontinued operations, net of tax	(572)	(263)	30	238
<b>Net income</b>	<b>\$ 45,897</b>	<b>\$ 39,967</b>	<b>\$ 108,848</b>	<b>\$ 108,275</b>
Earnings (loss) per share				
Basic				
Continuing operations	\$ 0.51	\$ 0.43	\$ 1.18	\$ 1.16
Discontinued operations	(0.01)	(0.00)	0.00	0.00
<b>Basic earnings per share</b>	<b>\$ 0.50</b>	<b>\$ 0.43</b>	<b>\$ 1.18</b>	<b>\$ 1.16</b>
Diluted				
Continuing operations	\$ 0.50	\$ 0.42	\$ 1.16	\$ 1.14
Discontinued operations	(0.01)	(0.00)	0.00	0.00
<b>Diluted earnings per share</b>	<b>\$ 0.49</b>	<b>\$ 0.42</b>	<b>\$ 1.16</b>	<b>\$ 1.14</b>

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Weighted average shares outstanding				
Basic	91,967	92,854	92,251	93,127
Diluted	93,153	94,955	93,747	95,115
Dividends declared per share	\$ 0.055	\$ 0.050	\$ 0.160	\$ 0.145

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 28, 2009	June 28, 2008	March 29, 2008
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 197,817	\$ 318,599	\$ 64,113
Investment securities	5	560	725
Accounts receivable, net	331,307	317,875	347,058
Inventories	383,010	374,782	335,905
Current deferred income taxes	40,447	42,241	36,631
Income taxes refundable	12,191	12,841	6,412
Prepaid expenses and other current assets	26,904	36,951	18,634
Current assets of discontinued operations	45,796	58,968	48,100
<b>Total current assets</b>	<b>1,037,477</b>	<b>1,162,817</b>	<b>857,578</b>
Property and equipment	724,242	719,593	685,323
Less accumulated depreciation	(385,780)	(381,053)	(366,048)
	338,462	338,540	319,275
Restricted cash	400,000	400,000	400,000
Goodwill and other indefinite-lived intangible assets	249,960	287,112	269,608
Other intangible assets	208,093	220,724	222,346
Non-current deferred income taxes	70,610	73,726	50,128
Other non-current assets	45,101	63,914	49,937
Non-current assets of discontinued operations	22,181	34,202	30,241
	<b>\$ 2,371,884</b>	<b>\$ 2,581,035</b>	<b>\$ 2,199,113</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 232,875	\$ 235,922	\$ 216,030
Notes payable			10,169
Payroll and related taxes	51,949	70,977	49,910
Accrued customer programs	52,789	53,419	45,537
Accrued liabilities	49,435	55,055	38,162
Current deferred income taxes	16,120	24,493	18,864
Current portion of long-term debt	15,869	20,095	17,598
Current liabilities of discontinued operations	18,975	31,659	21,493
<b>Total current liabilities</b>	<b>438,012</b>	<b>491,620</b>	<b>417,763</b>
<b>Non-current liabilities</b>			
Long-term debt, less current portion	875,000	895,095	697,598
Non-current deferred income taxes	133,955	138,158	111,483
Other non-current liabilities	74,770	112,396	102,472
Non-current liabilities of discontinued operations	9,391	10,051	9,233
<b>Total non-current liabilities</b>	<b>1,093,116</b>	<b>1,155,700</b>	<b>920,786</b>

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Shareholders' equity			
Preferred stock, without par value, 10,000 shares authorized			
Common stock, without par value, 200,000 shares authorized	448,589	488,537	498,002
Accumulated other comprehensive income	8,111	155,184	95,398
Retained earnings	384,056	289,994	267,164
Total shareholders' equity	840,756	933,715	860,564
	\$ 2,371,884	\$ 2,581,035	\$ 2,199,113

Supplemental Disclosures of Balance Sheet Information

Allowance for doubtful accounts	\$ 9,750	\$ 7,511	\$ 7,419
Working capital from continuing operations	\$ 572,644	\$ 643,888	\$ 413,208
Preferred stock, shares issued			
Common stock, shares issued	92,171	93,311	93,380

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	
	2009	2008
<b>Cash Flows From (For) Operating Activities</b>		
Net income	\$ 108,848	\$ 108,275
Adjustments to derive cash flows		
Write-off of in-process research and development	279	2,786
Depreciation and amortization	50,906	50,822
Asset impairments	16,704	
Share-based compensation	7,322	6,457
Income tax benefit from exercise of stock options	(2,673)	3,245
Excess tax benefit of stock transactions	(2,970)	(8,253)
Deferred income taxes	811	1,846
<b>Sub-total</b>	<b>179,227</b>	<b>165,178</b>
Changes in operating assets and liabilities, net of asset and business acquisitions and restructuring		
Accounts receivable	(6,053)	(71,497)
Inventories	(9,007)	(37,314)
Income taxes refundable	(10,617)	(4,684)
Accounts payable	(4,219)	52,513
Payroll and related taxes	(21,258)	6,958
Accrued customer programs	(580)	(2,445)
Accrued liabilities	(16,907)	(14,771)
Accrued income taxes	19,726	20,342
Other	(28,729)	17,969
<b>Sub-total</b>	<b>(77,644)</b>	<b>(32,929)</b>
<b>Net cash from operating activities</b>	<b>101,583</b>	<b>132,249</b>
<b>Cash Flows (For) From Investing Activities</b>		
Purchase of securities		(170,552)
Proceeds from sales of securities		201,436
Cash acquired in asset exchange	2,115	
Acquisitions of businesses, net of cash acquired	(88,248)	(87,130)
Acquisition of intangible assets	(1,000)	(12,401)
Additions to property and equipment	(32,020)	(26,022)
<b>Net cash for investing activities</b>	<b>(119,153)</b>	<b>(94,669)</b>
<b>Cash Flows (For) From Financing Activities</b>		
Repayments of short-term debt, net	(13,736)	(1,607)
Borrowings of long-term debt		140,000
Repayments of long-term debt	(31,380)	(95,801)
Excess tax benefit of stock transactions	2,970	8,253
Issuance of common stock	9,434	26,097

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Repurchase of common stock	(62,347)	(58,979)
Cash dividends	(14,786)	(13,551)
Net cash (for) from financing activities	(109,845)	4,412
Effect of exchange rate changes on cash	6,632	(7,895)
Net increase (decrease) in cash and cash equivalents	(120,783)	34,097
Cash and cash equivalents of continuing operations, beginning of period	318,599	30,301
Cash balance of discontinued operations, beginning of period	5	4
Cash and cash equivalents, end of period	197,821	64,402
Less cash balance of discontinued operations, end of period	(4)	(289)
Cash and cash equivalents of continuing operations, end of period	\$ 197,817	\$ 64,113
Supplemental Disclosures of Cash Flow Information		
Cash paid/received during the period for:		
Interest paid	\$ 33,829	\$ 29,102
Interest received	\$ 18,872	\$ 15,590
Income taxes paid	\$ 60,105	\$ 25,715
Income taxes refunded	\$ 3,627	\$ 6,560

See accompanying notes to condensed consolidated financial statements.

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**PERRIGO COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 28, 2009**

(in thousands, except per share amounts)

Perrigo Company (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 and the United Kingdom.

**NOTE A 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 prior years to conform to the current year presentation. The amounts reclassified had no effect on retained earnings or net income.

Operating results for the nine months ended March 28, 2009 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 28, 2008.

In March 2009, the Company committed to a plan to sell its Israel Consumer Products business. The financial results of this business, which were previously reported as part of the Company's Other category, have been classified 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. See Note N for additional information regarding discontinued operations. Unless otherwise noted, amounts and disclosures throughout the notes to consolidated financial statements relate to the Company's continuing operations.

*Recently Issued Accounting Standards*

In April 2009, the Financial Accounting Standards Board (FASB) issued the following FASB Staff Positions (FSP): FSP FAS 157-4 Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4); FSP FAS 115-2 and FAS 124-2 Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2); and FSP FAS 107-1 and APB 28-1 Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). The first two FSPs are both effective for interim and annual periods ending after June 15, 2009, while the latter FSP is effective for interim periods ending after June 15, 2009. Early adoption is permitted for periods ending after March 15, 2009 for all three FSPs. If an entity elects to early adopt any one of these FSPs, it may only do so if it also elects to early adopt the other two FSPs. The effects of each FSP, upon adoption, are described below.

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FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with FASB Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157), when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly (that is, forced or distressed). The Company plans to adopt FSP FAS 157-4 effective for its fiscal 2009 year-end and does not expect this FSP to have a material effect on its consolidated results of operations or its financial position upon adoption.

FSP FAS 115-2 and FAS 124-2 amends existing guidance for determining whether an impairment is other-than-temporary for debt securities. This FSP requires that an entity recognize noncredit losses on held-to-maturity debt securities in other comprehensive income (OCI) and amortize that amount over the remaining life of the security in a prospective manner by offsetting the recorded value of the asset. It also requires an entity to present the total other-than-temporary impairment in the statement of earnings with an offset for the amount recognized in OCI. Upon adoption of this FSP, an entity is required to record a cumulative-effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other-than-temporary impairment from retained earnings to accumulated OCI if the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery. The Company plans to adopt FSP FAS 115-2 and FAS 124-2 effective for its fiscal 2009 year-end and does not expect this FSP to have a material effect on its consolidated results of operations or its financial position upon adoption.

FSP FAS 107-1 and APB 28-1 amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments (SFAS 107), to require an entity to provide disclosures about fair value of financial instruments in interim financial information as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. Under this FSP, an entity must include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. In addition, an entity must disclose the fair value of all financial instruments for which it is practicable to estimate that fair value, whether recognized or not recognized in the statement of financial position, as required by SFAS 107. The Company plans to adopt FSP FAS 107-1 and APB 28-1 effective for its fiscal 2009 year-end and does not expect this FSP to have a material effect on its fair value disclosures upon adoption.

Also in April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies (FSP FAS 141(R)-1), which amends and clarifies SFAS No. 141(R), Business Combinations, on the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP 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. Accordingly, the effects of the Company's adoption of FSP FAS 141(R)-1 will depend upon the extent and magnitude of acquisitions after June 27, 2009.

In December 2008, the FASB issued FSP FAS 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets (FSP FAS 132(R)-1), which amends SFAS No. 132(R) to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. This

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FSP enhances required disclosures for postretirement benefit plan assets in order for investors to obtain a better understanding of the types of assets and associated risks in an employer's defined benefit pension or other postretirement plan and events in the economy and markets that could have a significant effect on the value of plan assets. It is effective for financial statements issued for fiscal years ending after December 15, 2009, with early application encouraged. The Company does not expect FSP FAS 132(R)-1 to have a material effect on its postretirement benefit plan asset disclosures upon adoption.

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP FAS 157-3), which clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP was effective upon issuance, including prior periods for which financial statements had not been issued. See Note D for more information pertaining to fair value measurements of investment assets and their effect on the Company's condensed consolidated financial statements.

At the beginning of fiscal 2009, the Company adopted the provisions of SFAS 157 and the provisions of SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities* (SFAS 159). See Note D for more information pertaining to the adoption of these Statements and their effect on the Company's condensed consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB SFAS 133 (SFAS 161), to further improve the financial reporting surrounding derivative instruments and hedging activities. SFAS 161 enhances required disclosures for derivative instruments and hedging activities in order for investors to obtain a better understanding of their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company adopted the provisions of SFAS 161 at the beginning of its third quarter of fiscal 2009 and applied the requirements of SFAS 161 on a prospective basis. See Note I for more information pertaining to the adoption of this Statement and its effect on the Company's condensed consolidated financial statements.

In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS 157 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. Although this Statement will affect future fair value disclosures, it will not impact the Company's consolidated results of operations or financial position upon adoption.

**NOTE B ACQUISITIONS**

The Company completed various acquisitions during the year-to-date fiscal 2009 period and the prior year period as summarized below. Pro forma results of operations have not been presented because the aggregate effects of these acquisitions were not material to the Company's condensed consolidated financial statements.

*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 is the leading manufacturer of store brand pediatric electrolytes, enemas and feminine hygiene products for retail customers in the U.S. The acquisition was accounted

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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 for the period from November 13, 2008 to March 28, 2009. Prior to the acquisition, Unico's fiscal year began January 1 and ended December 31. After the acquisition, for purposes of consolidation, Unico's fiscal year is the same as the Company's fiscal year.

The purchase price through March 28, 2009 was \$51,853 and was preliminarily allocated as follows:

Cash	\$ 1,414
Accounts receivable	4,275
Inventory	5,344
Property and equipment	4,650
Other assets	2,943
Goodwill	22,872
Intangible assets	26,191
 Total assets acquired	 67,689
 Accounts payable	 3,293
Other current liabilities	1,777
Deferred tax liabilities	10,766
 Total liabilities assumed	 15,836
 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 \$22,872, was recorded as goodwill in the condensed consolidated balance sheet and has been assigned to the Company's Consumer Healthcare segment. Goodwill is not amortized for financial reporting or tax purposes, and the goodwill assigned to the Consumer Healthcare segment is tested for impairment at least annually in the second quarter of the Company's fiscal year.

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



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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 approach. This additional step-up in value will be 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 is a store brand manufacturer of OTC and prescription pharmaceuticals, including antibiotics, hormonals and ophthalmics. The acquisition was accounted for under the purchase method of accounting. The operating results for Diba are included in the Consumer Healthcare segment of the Company's consolidated results of operations for the period from October 6, 2008 to February 28, 2009. Prior to the acquisition, Diba's fiscal year began January 1 and ended December 31. After the acquisition, for purposes of consolidation, Diba's fiscal year begins June 1 and ends May 31, the same period followed for the Company's existing Mexico operations.

The purchase price through March 28, 2009 was \$24,500 and was allocated as follows:

Cash	\$ 1,530
Accounts receivable	2,715
Inventory	3,878
Property and equipment	5,639
Other assets	582
Goodwill	9,520
Intangible assets	5,047
 Total assets acquired	 28,911
 Accounts payable	 529
Other liabilities	2,271
Deferred tax liabilities	1,611
 Total liabilities assumed	 4,411
 Net assets acquired	 \$ 24,500

The excess of the purchase price over the fair value of net assets acquired, amounting to \$9,520, was recorded as goodwill in the condensed consolidated balance sheet and has been assigned to the Company's Consumer Healthcare segment. Goodwill is not amortized for financial reporting or tax purposes, and the goodwill assigned to the Consumer Healthcare segment is tested for impairment at least annually in the second quarter of the Company's fiscal year.

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





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

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 total step-up in inventory value had been 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 approach. This additional step-up in value will be 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 \$43,605, including debt assumed. The acquisition of JBL is expected to provide increased sales revenue and additional FDA-compliant production capacity to help service current and future customer needs. The Company paid \$15,582 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 are included in the Consumer Healthcare segment of the Company's consolidated results of operations for the period from September 16 to March 28, 2009. Prior to the acquisition, JBL's fiscal year began January 1 and ended December 31. After the acquisition, for purposes of consolidation, JBL's fiscal year is the same as the Company's fiscal year.

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The purchase price through March 28, 2009 was \$43,605 and was preliminarily allocated as follows:

Cash	\$ 743
Accounts receivable	5,989
Inventory	11,747
Property and equipment	34,444
Other assets	971
Intangible assets	1,575
Goodwill	6,098
 Total assets acquired	 61,567
 Accounts payable	 10,207
Other current liabilities	2,569
Notes payable	11,006
Long-term debt	17,017
Deferred tax liabilities	5,186
 Total liabilities assumed	 45,985
 Net assets acquired	 15,582
JBL debt assumed on the closing date	28,023
 Total purchase consideration	 \$ 43,605

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, which are expected to be paid over the next eight months. Management is currently evaluating the future use of certain facilities for their strategic value, which may result in additional restructuring costs. The activity related to the employee termination benefits is as follows:

	<b>Fiscal 2009 Restructuring Employee Termination</b>
Balance at September 27, 2008	\$ 795
Payments	(287)
Adjustments	(264)
 Balance at March 28, 2009	 \$ 244

The excess of the purchase price over the fair value of net assets acquired, amounting to \$6,098, was recorded as goodwill in the condensed consolidated balance sheet and has been assigned to the Company's Consumer Healthcare segment. Goodwill is not amortized for financial reporting or tax purposes, and the goodwill assigned to the Consumer Healthcare segment is tested for impairment at least annually in the second quarter of the Company's fiscal year.

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Intangible assets acquired in the acquisition were valued as follows:

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

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 approach. This additional step-up in value will be 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 Accounting Principles Bulletin No. 29 Accounting for Non-Monetary Transactions as amended by SFAS 153. 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
<b>Total assets acquired</b>	<b>17,815</b>
Accounts payable	386
Other current liabilities	5,280
<b>Total liabilities assumed</b>	<b>5,666</b>
<b>Net allocated fair value</b>	<b>\$ 12,149</b>

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 for the period from June 18, 2008 to February 28, 2009, which, for consolidation purposes, is consistent with the reporting period for the Company's existing U.K. operations.

*Galpharm Healthcare Ltd.* On January 9, 2008, the Company acquired 100% of the outstanding shares of Galpharm Healthcare Ltd. (Galpharm), a leading supplier of OTC store brand pharmaceutical products sold by supermarkets, drug stores and pharmacies in the U.K., for \$83,312. The acquisition of Galpharm

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expands the Company's global presence and complements its existing U.K. business. The Company paid approximately \$54,300 in cash, including acquisition costs of \$1,500, and assumed approximately \$29,000 of existing debt, which was repaid immediately. The acquisition was accounted for under the purchase method of accounting. The operating results for Galpharm were included in the Consumer Healthcare segment of the Company's condensed consolidated financial statements beginning in the third quarter of fiscal 2008. Prior to the acquisition, Galpharm's fiscal year began April 1 and ended March 31. After the acquisition, for purposes of consolidation, Galpharm's fiscal year begins June 1 and ends May 31, the same period followed for the Company's existing U.K. business.

The purchase price through June 28, 2008 was \$83,312 and was allocated as follows:

Inventory	\$ 16,179
Accounts receivable	10,101
Other current assets	485
Property and equipment	1,189
Intangible assets	44,105
Goodwill	38,566
<b>Total assets acquired</b>	<b>110,625</b>
Accounts payable	6,257
Other current liabilities	9,805
Deferred tax liability	11,251
<b>Total liabilities assumed</b>	<b>27,313</b>
<b>Total purchase price</b>	<b>\$ 83,312</b>

The excess of the purchase price over the fair value of net assets acquired, amounting to \$38,566, was recorded as goodwill in the consolidated balance sheet and assigned to the Company's Consumer Healthcare segment. Goodwill is not amortized for financial reporting or tax purposes, and the goodwill assigned to the Consumer Healthcare segment is tested for impairment at least annually in the second quarter of the Company's fiscal year.

The purchase agreement entered into allowed for settlement of working capital accounts to determine a final purchase price. During the fourth quarter of fiscal 2008, the Company received a settlement of working capital accounts for \$3,818, which served as a reduction to the original purchase price and a corresponding reduction of goodwill.

Intangible assets acquired in the acquisition were valued as follows:

Trade names and trademarks	\$ 4,695
Developed product technology and product rights	15,456
License and distribution agreements	1,604
Customer relationships	19,564
In-process research and development	2,786
<b>Total intangible assets acquired</b>	<b>\$ 44,105</b>

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Management assigned fair value to the identifiable intangible assets through a combination of the relief from royalty method and estimating discounted forecasted cash flows. Trade names and trademarks were determined to have indefinite useful lives. Accordingly, no amortization was 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. The average estimated useful life of the developed product technology and product rights is 10 years. License and distribution agreements are also estimated at 10 years. Both categories are being amortized on a straight line basis. Customer relationships are based on 15-year useful lives and are amortized on an accelerated basis consistent with projected revenues over the life of the relationships. 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 14% and commencement of net cash inflows that varied between one and three 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 at that time. The Company estimates that the amount it will incur in additional costs related to the efforts necessary to develop the acquired, incomplete technology into commercially viable products will be immaterial.

At the time of the acquisition, a step-up in the value of inventory of \$5,756 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 half of fiscal 2008 as the inventory was sold.

In connection with the acquisition, the Company accrued \$760 for restructuring costs all related to employee termination benefits for three employees, all of which was paid by the end of fiscal 2008. For accounting purposes, these restructuring costs were included in the allocation of the total purchase price in other current liabilities.

*Qualis, Inc.* On March 7, 2007, the Company announced it entered into a purchase agreement to acquire the stock of Qualis, Inc. (Qualis), a privately-owned manufacturer of store brand pediculicide products, for \$12,401. The assets acquired in this transaction consist of the intangible assets attributable to the products acquired, which include primarily store brand OTC product formulations that compare to Rid® and Nix® brand products. The transaction closed on July 3, 2007. Accordingly, the acquired assets and operating results related to these products were included in the Consumer Healthcare segment of the Company's condensed consolidated financial statements beginning in the first quarter of fiscal 2008.

The total allocated purchase price for accounting purposes through September 29, 2007 was \$12,401. The Company allocated the entire purchase price to intangible assets—developed product technology. Management assigned fair value to the identifiable intangible assets by estimating the discounted forecasted cash flows of the products acquired. The average estimated useful life of the developed product technology is 12 years and is being amortized on a straight-line basis.

**Table of Contents****NOTE C 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	
	2009	2008	2009	2008
<b>Numerator:</b>				
Income from continuing operations	\$ 46,469	\$ 40,230	\$ 108,818	\$ 108,037
Income (loss) from discontinued operations, net of tax	(572)	(263)	30	238
Net income used for both basic and diluted EPS	\$ 45,897	\$ 39,967	\$ 108,848	\$ 108,275
<b>Denominator:</b>				
Weighted average shares outstanding for basic EPS	91,967	92,854	92,251	93,127
Dilutive effect of share-based awards	1,186	2,101	1,496	1,988
Weighted average shares outstanding for diluted EPS	93,153	94,955	93,747	95,115

For third quarter and year-to-date fiscal 2009, share-based awards outstanding that were anti-dilutive were 497 and 208, respectively. There were no share-based awards outstanding that were anti-dilutive for third quarter or year-to-date fiscal 2008. These share-based awards were excluded from the diluted EPS calculation.

**NOTE D FINANCIAL INSTRUMENTS**

In September 2006, the FASB issued SFAS 157, which clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures on fair value measurements. This Statement requires fair value measurements to be classified and disclosed in one of the following three categories:

Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges for identical assets and liabilities.

Level 2: Financial instruments lacking unadjusted, quoted prices from active market exchanges, including over-the-counter traded financial instruments. The prices for the financial instruments 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.

Level 3: Financial instruments that are not actively traded on a market exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

Effective June 29, 2008, the Company adopted the provisions of SFAS 157 and FSP FAS 157-3 for financial assets and liabilities. There was no impact to the condensed consolidated financial statements as a result of the adoption of SFAS 157 or FSP FAS 157-3, except as disclosed below. The following table summarizes the valuation of the Company's financial instruments by the above pricing categories as of March 28, 2009:

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	Fair Value Measurements as of March 28, 2009 Using:			
	Total as of March 28, 2009	Quoted Prices In Active Markets (Level 1)	Prices With Other Observable Inputs (Level 2)	Prices With Unobservable Inputs (Level 3)
<b>Financial Assets:</b>				
Cash equivalents	\$ 111,559	\$ 111,559	\$	\$
Investment securities	5,020	5		5,015
Funds associated with Israeli post employment benefits	15,496		15,496	
<b>Total</b>	<b>\$ 132,075</b>	<b>\$ 111,564</b>	<b>\$ 15,496</b>	<b>\$ 5,015</b>
<b>Financial Liabilities:</b>				
Interest rate swap agreements	\$ 5,227	\$	\$ 5,227	\$
Foreign currency forward contracts, net	3,649		3,649	
<b>Total</b>	<b>\$ 8,876</b>	<b>\$</b>	<b>\$ 8,876</b>	<b>\$</b>

As of March 28, 2009, the Company had \$15,496 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 totaling \$18,000 in par value. Auction rate securities 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 auction rate securities 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, auction rate securities have failed to settle at auction resulting in an illiquid market for these types of securities. As a result, the estimated fair value of auction rate securities 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 auction rate securities 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 (loss). The amount of the write-down was based on, among other things, estimates provided by Lehman Brothers. At that time, the companies that issued these securities continued to maintain their AAA counterparty credit ratings 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.



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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 auction rate securities, the Company hired an independent third-party valuation firm to estimate 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. As of the December 27, 2008 balance sheet date, these securities were recorded at a fair value of \$4,458.

During the third quarter of fiscal 2009, the credit ratings of the companies that issued these securities remained essentially unchanged and the Company continued to earn and collect interest on these investments at the maximum contractual rate. Based on this and other qualitative factors, at March 28, 2009, the Company believes that these securities continue to be properly recorded at a fair value of \$4,458. 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 auction rate securities, the Company holds certain collateralized debt obligations as of March 28, 2009, totaling \$557 backed primarily by United States Treasury obligations.

The following table presents a rollforward of the assets measured at fair value on a recurring basis using unobservable inputs (Level 3) at March 28, 2009:

	<b>Investment Securities (Level 3)</b>
Balance as of June 29, 2008	\$
Transfers into Level 3	15,101
Previously recorded decline of fair value in other comprehensive income	3,453
Other-than-temporary impairment loss	(13,542)
Other	3
Balance as of March 28, 2009	\$ 5,015

In February 2007, the FASB issued SFAS 159, which expands the use of fair value measurement by permitting entities to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. The Company adopted the provisions of SFAS 159 at the beginning of fiscal 2009 and elected not to expand the use of fair value accounting beyond those assets and liabilities for which it is currently required to use this basis of measurement.

**Table of Contents****NOTE E INVENTORIES**

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

	March 28, 2009	June 28, 2008	March 29, 2008
Finished goods	\$ 154,293	\$ 163,499	\$ 158,206
Work in process	109,551	107,947	93,904
Raw materials	119,166	103,336	83,795
	\$ 383,010	\$ 374,782	\$ 335,905

As of March 28, 2009, inventory balances included additions made during the first half of fiscal 2009 that were attributable to the acquisitions of Unico, Diba, JBL and Brunel, as discussed in Note B.

**NOTE F GOODWILL**

Goodwill allocated to the API and Rx Pharmaceuticals segments is tested for impairment annually in the third quarter of the fiscal year. The current year testing resulted in no impairment charge related to these segments. The goodwill allocated to the Consumer Healthcare segment is tested annually for impairment in the second quarter of the fiscal year. The current year testing resulted in no impairment charge related to the Consumer Healthcare segment.

In the first half of fiscal 2009 there were additions to goodwill in the Consumer Healthcare segment related to the acquisitions of Unico, Diba and JBL. In addition, during the third quarter of fiscal 2009, goodwill in the Rx Pharmaceuticals and API segments was adjusted for the resolution of pre-acquisition contingencies related to income tax matters associated with the Agis Industries (1983) Ltd. (Agis) acquisition completed in 2005. Changes in the carrying amount of goodwill, by reportable segment, were as follows:

	Consumer Healthcare	Rx Pharma- ceuticals	API	Total
Balance as of June 28, 2008	\$ 86,113	\$ 95,962	\$ 100,342	\$ 282,417
Business acquisitions	38,490			38,490
Preliminary purchase price allocation adjustment	(263)			(263)
Resolution of pre-acquisition tax contingencies		(7,295)	(908)	(8,203)
Currency translation adjustment	(23,673)	(21,236)	(21,879)	(66,788)
Balance as of March 28, 2009	\$ 100,667	\$ 67,431	\$ 77,555	\$ 245,653

**Table of Contents****NOTE G OTHER INTANGIBLE ASSETS**

Intangible assets and related accumulated amortization consisted of the following:

	March 28, 2009		June 28, 2008	
	Gross	Accumulated Amortization	Gross	Accumulated Amortization
Intangible assets subject to amortization:				
Developed product technology/ formulation and product rights	\$ 188,238	\$ 45,903	\$ 226,889	\$ 43,130
Distribution and license agreements	22,056	11,662	23,344	10,213
Customer relationships	57,600	7,788	24,694	5,565
Trademarks	4,366	681	6,275	1,570
Non-competition agreements	2,087	220		
<b>Total</b>	<b>274,347</b>	<b>66,254</b>	<b>281,202</b>	<b>60,478</b>
Intangible assets not subject to amortization:				
Trade names and trademarks	4,307		4,695	
<b>Total intangible assets</b>	<b>\$ 278,654</b>	<b>\$ 66,254</b>	<b>\$ 285,897</b>	<b>\$ 60,478</b>

As of March 28, 2009, customer relationships included additions made during the first half of fiscal 2009 that were attributable to the acquisitions of Unico, Diba, JBL and Brunel, as discussed in Note B. Certain intangible assets, including developed product technology/formulation and product rights, 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 a charge for amortization expense of \$16,914 and \$17,624 for year-to-date fiscal 2009 and 2008, respectively, for intangible assets subject to amortization. The third quarter of fiscal 2008 contains a charge to operations for \$3,513 due to the acceleration of amortization expense related to the early termination of a license agreement - see Note O.

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

Fiscal Year	Amount
2009 <sup>(1)</sup>	\$ 5,300
2010	19,900
2011	18,300
2012	18,300
2013	18,100

<sup>(1)</sup> Reflects remaining three months of fiscal 2009.

**Table of Contents****NOTE H OUTSTANDING DEBT**

Total borrowings outstanding are summarized as follows:

	March 28, 2009	June 28, 2008	March 29, 2008
<b>Short-term debt:</b>			
Swingline loan	\$	\$	\$ 10,169
Current portion of long-term debt	15,869	20,095	17,598
<b>Total</b>	<b>15,869</b>	<b>20,095</b>	<b>27,767</b>
<b>Long-term debt:</b>			
Revolving line of credit	50,000	50,000	180,000
Term loans	225,000	225,000	100,000
Senior notes	200,000	200,000	
Letter of undertaking Israeli subsidiary	400,000	400,000	400,000
Debenture Israeli subsidiary		20,095	17,598
<b>Total</b>	<b>875,000</b>	<b>895,095</b>	<b>697,598</b>
<b>Total debt</b>	<b>\$ 890,869</b>	<b>\$ 915,190</b>	<b>\$ 725,365</b>

The terms of the loan related to the letter of undertaking indicated above require that the Company maintain a deposit of \$400,000 in an uninsured account with the lender as security for the loan. The deposit is classified as restricted cash on the balance sheet as a non-current asset. Due to the terms of the letter of undertaking, this loan does not impact the Company's loan covenant calculations.

**NOTE I DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

On December 28, 2008, the Company adopted SFAS 161, which required additional financial statement disclosures related to derivative instruments and hedging activities. The Company applied the requirements of SFAS 161 on a prospective basis. Accordingly, disclosures related to interim periods prior to the date of adoption have not been presented.

The Company enters into certain derivative financial instruments, when available on a cost-effective basis, to mitigate its risk associated with changes in interest rates and foreign currency exchange rates. The Company accounts for derivatives in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS 138. Under the provisions of SFAS 133, all derivatives are recognized on the balance sheet at their fair value. Changes in fair value are recognized periodically in earnings or accumulated other comprehensive income within shareholders' equity, depending on the intended use of the derivative and whether the derivative has been designated by management as a hedging instrument. Changes in fair value of derivative instruments not designated as hedging instruments are recognized in earnings in the current period.

All derivative instruments are managed on a consolidated basis to efficiently net exposures and thus take advantage of any natural offsets. The absolute value of the notional amounts of derivative contracts for the Company approximates \$109,000. 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

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financial institutions having a long-term credit rating of A or better and by distributing the contracts among several financial institutions to diversify credit concentration risk.

*Interest Rate Swap Agreements*

The Company executes interest rate swap agreements to manage its exposure to changes in interest rates related to its long-term borrowings. For interest rate swap agreements designated as cash flow hedges, changes in the fair value of the swap agreements, net of tax, are reported as a component of other comprehensive income.

On March 16, 2005, the Company and certain foreign subsidiaries entered into a credit agreement with a group of banks which provides an initial revolving loan commitment of \$250,000 and an initial term loan commitment of \$100,000, each subject to increase or decrease as specified in the credit agreement. Both loans bear an interest rate of Alternative Base Rate (ABR) or London Interbank Offered Rate (LIBOR) plus an applicable margin determined by the Company's leverage ratio over the trailing four quarters. Additionally, the credit agreement provides for short term swingline loans at negotiable rates of interest subject to a maximum amount of \$25,000 drawn at any time.

In conjunction with the credit agreement described above, during the fourth quarter of fiscal 2005, the Company entered into two interest rate swap agreements to reduce the impact of fluctuations in interest rates on the aforementioned term and revolving commitments. These interest rate swap agreements are contracts to exchange floating rate for fixed rate interest payments over the life of the agreements without the exchange of the underlying notional amounts. The notional amounts of 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 interest rate swap agreements is recognized as an adjustment to interest expense.

The interest rate swap agreements fix the interest rate at 4.77% on an initial notional amount of principal of \$50,000 on the revolving loan and \$100,000 on the term loan. The interest rate swap agreements expire on March 16, 2010.

In accordance with SFAS 133, the Company has designated the above interest rate swaps as cash flow hedges and has formally documented the relationship between the interest rate swaps and the variable rate borrowings, as well as its risk management objective and strategy for undertaking the hedge transaction. This process includes linking the derivative to the specific liability or asset on the balance sheet. The Company also assesses, both at the hedge's inception 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 other comprehensive income 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 other comprehensive income. For foreign currency contracts not designated as hedges, changes in fair value are recorded in current period earnings.

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The Company's foreign currency hedging program consists of cash flow hedges. During the third quarter of fiscal 2009, the Company entered into foreign currency forward contracts in order to hedge the impact of fluctuations of foreign exchange on expected future purchases and related payables denominated in a foreign currency. These forward contracts have a maximum maturity date of twelve months. In addition, during the third quarter of fiscal 2009, the Company entered into foreign currency forward contracts in order to hedge the impact of fluctuations of foreign exchange on expected future sales and related receivables denominated in a foreign currency. These forward contracts also have a maximum maturity date of twelve months. The Company has not entered into foreign currency put or call contracts during the period.

In accordance with SFAS 133, the Company has designated the above 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 hedge's inception 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 other comprehensive income 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.

As of March 28, 2009, the accumulated derivative net loss recorded in accumulated other comprehensive income for cash flow hedges was \$3,179, net of tax. As of December 27, 2008, the accumulated derivative net loss in accumulated other comprehensive income for cash flow hedges was \$3,875, net of tax.

The effects of derivative instruments on the Company's condensed consolidated financial statements were as follows as of March 28, 2009 and for the three months then ended (amounts presented exclude any income tax effects):

**Fair Values of Derivative Instruments in Condensed Consolidated Balance Sheet**

	March 28, 2009			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments under SFAS 133:</b>				
Interest rate swap agreements	Other current assets	\$	Accrued liabilities	\$ 5,227
Foreign currency forward contracts	Other current assets	660	Accrued liabilities	214
Total derivatives designated as hedging instruments under SFAS 133		\$ 660		\$ 5,441
<b>Derivatives not designated as hedging instruments under SFAS 133:</b>				
Foreign currency forward contracts	Other current assets	\$ 47	Accrued liabilities	\$ 4,142
Total derivatives not designated as hedging instruments under SFAS 133		\$ 47		\$ 4,142

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**Effects of Derivative Instruments on Income and Other Comprehensive Income (OCI) for the  
three months ended March 28, 2009**

Derivatives in SFAS 133 Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in OCI on Derivative (Effective Portion)	Location and Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion)		Location and Amount of Gain/(Loss) Recognized in Effectiveness Testing	
		Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			
Interest rate swap agreements	\$ (170)	Interest, net	\$ (1,094)	Interest, net	\$
Foreign currency forward contracts	446	Net sales	10	Cost of sales	1
		Cost of sales	(30)		
		Interest, net	12		
		Other income (expense), net	268		
<b>Total</b>	<b>\$ 276</b>		<b>\$ (834)</b>		<b>\$ 1</b>

Derivatives Not Designated as Hedging Instruments under SFAS 133	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative
Foreign currency forward contracts	Interest, net	\$ (828)
Foreign currency forward contracts <sup>(1)</sup>	Other income (expense), net	3,012
<b>Total</b>		<b>\$ 2,184</b>

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

**NOTE J SHAREHOLDERS EQUITY**

The Company issued 59 and 787 shares related to the exercise and vesting of share-based compensation during the third quarter of fiscal 2009 and fiscal 2008, respectively. Year-to-date, the Company issued 734 and 2,150 shares related to share-based compensation in fiscal 2009 and fiscal 2008, respectively.

The Company has a common stock repurchase program. Purchases are made on the open market, subject to market conditions, and are funded by available cash or borrowings. 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 has a 10b5-1 plan that allows brokers selected by the Company to repurchase shares on behalf of the Company at times when it would ordinarily not be in the market because of the Company's trading policies. The Company is not currently utilizing the 10b5-1 plan to effect purchases, but may resume doing so at any time, subject to remaining availability.





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under the Board approval. During the third quarter of fiscal 2009, the Company repurchased 2 shares of its common stock for \$50, all of which related to private party transactions. During the third quarter of fiscal 2008, the Company repurchased 707 shares of its common stock for \$23,562, of which 5 shares accounted for private party transactions. Year-to-date, the Company repurchased 1,830 shares of its common stock for \$62,347 and 1,970 shares of its common stock for \$58,979 in fiscal 2009 and 2008, respectively. Year-to-date, private party transactions accounted for 36 shares and 33 shares in fiscal 2009 and 2008, respectively.

**NOTE K COMPREHENSIVE INCOME (LOSS)**

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

	Third Quarter		Year-to-Date	
	2009	2008	2009	2008
Net income	\$ 45,897	\$ 39,967	\$ 108,848	\$ 108,275
Other comprehensive income (loss):				
Change in fair value of derivative instruments, net of tax	696	(2,257)	(945)	(5,500)
Foreign currency translation adjustments	(32,189)	21,754	(149,244)	48,025
Change in fair value of investment securities, net of tax		(3,453)	3,453	(3,453)
Postretirement liability adjustments, net of tax	(112)	(116)	(337)	(349)
Comprehensive income (loss)	\$ 14,292	\$ 55,895	\$ (38,225)	\$ 146,998

For the third quarter and year-to-date of fiscal 2009, foreign currency translation adjustments reflect the impact of the decline in certain foreign currency values, primarily the Israeli shekel and the British pound sterling, relative to the U.S. dollar.

**NOTE L INCOME TAXES**

The recorded effective tax rate on continuing operations was 29.2% for the first nine months of fiscal 2009 compared with the actual rate of 24.6% on continuing operations for the same period in fiscal 2008. Including the results from discontinued operations, the consolidated recorded effective tax rate was 28.6% for the first nine months of fiscal 2009 compared with the consolidated actual rate of 24.9% for the same period in fiscal 2008. Foreign source income from continuing operations before tax for the third quarter was 40% of pre-tax earnings in fiscal 2009, down from 44% in the same period of fiscal 2008. Year-to-date, foreign source income from continuing operations was 28% of pre-tax earnings in fiscal 2009, down from 44% in the same period of fiscal 2008. Foreign source income is generally derived from jurisdictions with a lower tax rate than the U.S. statutory rate, and as a result, the third quarter fiscal 2009 effective tax rate was higher than the comparable quarter of the prior year. The recorded effective tax rate for the first nine months of fiscal 2009 was reduced by \$7,180, due to expiring statutes, audit activities and/or final decisions in matters that are subject of controversy in various taxing jurisdictions in which the Company operates. During the first quarter of fiscal 2008, the Company received a favorable tax ruling in Israel that resulted in a one-time benefit of \$4,222.

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

A reduction in the reserves for uncertain tax liabilities, recorded in accordance with FASB Interpretation 48, in the amount of \$20,431 was recorded in the third quarter of fiscal 2009 related to the settlement of audit activities, including tax payments, expiring statutes and/or final decisions in matters that are subject of controversy in various taxing jurisdictions in which the Company operates. It is reasonably possible that the amount of unrecognized tax benefits may significantly change in the next twelve months. The Company is not able to reasonably estimate the changes to unrecognized tax benefits that will be required in future periods.

**NOTE M COMMITMENTS AND CONTINGENCIES**

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. 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 \$74,800. While the Company intends to vigorously defend against these claims, the Company cannot reasonably predict at this time the outcome or the liability, if any, associated with these claims.

On March 11, 2009, a purported shareholder of the Company named Michael L. Warner filed a lawsuit in the United States District Court for the Southern District of New York against the Company and certain of its officers and directors, including the President and Chief Executive Officer and the Chief Financial Officer. The plaintiff seeks 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 alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The plaintiff generally alleges that the Company misled investors by failing to disclose, prior to February 3, 2009, that certain auction rate securities held by the Company, totaling \$18,000 in par value, had been purchased from Lehman Brothers Holdings, Inc. (Lehman). The plaintiff asserts that omission of the identity of Lehman as the seller of the auction rate securities was material because after Lehman's bankruptcy filing on September 15, 2008, the Company allegedly became unable to look to Lehman to repurchase the auction rate securities at a price near par value. The complaint seeks unspecified damages and unspecified equitable or injunctive relief, along with costs and attorneys' fees. The Company believes that the allegations in the complaint are without merit and intends to defend them vigorously. Although the outcome of this litigation cannot be forecasted with reasonable certainty, management does not expect the final disposition of the litigation to have a material adverse effect on the Company's consolidated financial position or results of operations.

In addition to the foregoing discussion, the Company has pending certain other legal actions and claims incurred in the normal course of business. The Company believes that it has meritorious defenses to these lawsuits and/or is covered by insurance and is actively pursuing the defense thereof. The Company believes the resolution of all of these matters will not have a material adverse effect on its financial condition and results of operations as reported in the accompanying consolidated financial statements. However, depending on the amount and timing of an unfavorable resolution of these lawsuits, the Company's future results of operations or cash flow could be materially impacted in a particular period.

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The Company's Israeli subsidiary provides a guaranty to a bank to secure the debt of a 50% owned joint venture for approximately \$500, not to exceed 50% of the joint venture's debt. A liability was not recorded on the Company's condensed consolidated balance sheet as of March 28, 2009 for this guaranty because management has estimated that the probability of payment is remote.

**NOTE N DISCONTINUED OPERATIONS**

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 has decided to sell the Israel Consumer Products business to a third party. The Company has engaged two investment banking firms to assist in the sale process. The Company anticipates completing this process within one year.

As of March 28, 2009, the Israel Consumer Products business has met the criteria set forth in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144) to be accounted for as discontinued operations. As of March 28, 2009, this business has not been sold but has met the held for sale criteria to be classified as discontinued operations. Accordingly, 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.

Results of discontinued operations were as follows:

	<b>Third Quarter</b>		<b>Year-to-Date</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net sales	\$ 18,036	\$ 23,067	\$ 66,999	\$ 66,291
Income (loss) before income taxes	\$ (1,252)	\$ (424)	\$ (1,195)	\$ 888
Income tax benefit (expense)	680	161	1,225	(650)
Income (loss) from discontinued operations, net of tax	\$ (572)	\$ (263)	\$ 30	\$ 238

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The assets and liabilities classified as discontinued operations as of March 28, 2009, June 28, 2008 and March 29, 2008 were as follows:

	March 28, 2009	June 28, 2008	March 29, 2008
Cash	\$ 4	\$ 5	\$ 289
Accounts receivable, net	20,246	32,396	25,467
Inventories	24,720	25,191	21,001
Prepaid expenses and other current assets	826	1,376	1,343
<b>Current assets of discontinued operations</b>	<b>\$ 45,796</b>	<b>\$ 58,968</b>	<b>\$ 48,100</b>
Property and equipment, net	\$ 12,656	\$ 18,356	\$ 16,404
Other intangible assets	3,656	3,908	3,992
Other non-current assets	5,869	11,938	9,845
<b>Non-current assets of discontinued operations</b>	<b>\$ 22,181</b>	<b>\$ 34,202</b>	<b>\$ 30,241</b>
Accounts payable	\$ 13,088	\$ 17,385	\$ 13,714
Accrued payroll and other accrued liabilities	5,887	14,274	7,779
<b>Current liabilities of discontinued operations</b>	<b>\$ 18,975</b>	<b>\$ 31,659</b>	<b>\$ 21,493</b>
Deferred taxes and other non-current liabilities	\$ 9,391	\$ 10,051	\$ 9,233
<b>Non-current liabilities of discontinued operations</b>	<b>\$ 9,391</b>	<b>\$ 10,051</b>	<b>\$ 9,233</b>

**NOTE O SEGMENT INFORMATION**

The Company has three reportable segments, aligned primarily by product: Consumer Healthcare, Rx Pharmaceuticals and API, as well as an Other category. As of March 28, 2009, the financial results of Israel Consumer Products are presented as discontinued operations. Accordingly, all periods presented below for the Company's Other category have been revised to exclude results of discontinued operations and now reflect only the results of the Israel Pharmaceutical and Diagnostic Products operating segment. The majority of corporate expenses, which generally represent shared services, are charged to operating segments as part of a corporate allocation. Unallocated expenses relate to certain corporate services that are not allocated to the segments.

In the second quarter of fiscal 2009, the Company recorded a fixed asset impairment charge of \$1,600 in the Consumer Healthcare segment. Also in the second quarter of fiscal 2009, the Company recorded a one-time write-off of in-process research and development of \$279 in the Consumer Healthcare segment related to the Diba acquisition. The year-to-date 2008 unallocated expenses included a \$1,900 reduction in administrative costs due to the favorable settlement of a pre-acquisition legal claim related to Agis in the first quarter, as well as a one-time write-off of in-process research and development of \$2,786 related to the assets acquired from Galpharm in the third quarter. Also in the third quarter of fiscal 2008, the Company's Israeli subsidiary and a customer agreed to terminate a license agreement. The terms of the agreement included a one-time cash payment of \$8,500 from the customer in lieu of expected future minimum royalty payments. The Company recognized the full \$8,500 in net sales for the Rx Pharmaceuticals segment in the third quarter of fiscal 2008. In addition, as part of the Agis acquisition in March 2005, the Company had recorded an intangible asset related to the license agreement. In the third quarter of fiscal 2008, the Company wrote off the remaining net book value of \$3,513, all of which was recognized as an acceleration of amortization expense.

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	Consumer Healthcare	Rx Pharma- ceuticals	API	Other	Unallocated expenses	Total
<b>Third Quarter 2009</b>						
Net sales	\$ 419,148	\$ 41,747	\$ 30,953	\$ 14,054		\$ 505,902
Operating income	\$ 62,278	\$ 7,982	\$ 4,344	\$ 2,726	\$ (5,433)	\$ 71,897
Amortization of intangibles	\$ 2,046	\$ 2,824	\$ 483	\$ 244		\$ 5,597
<b>Third Quarter 2008</b>						
Net sales	\$ 373,031	\$ 49,231	\$ 37,818	\$ 20,560		\$ 480,640
Operating income	\$ 51,693	\$ 11,349	\$ 6,024	\$ 1,368	\$ (10,420)	\$ 60,014
Amortization of intangibles	\$ 1,261	\$ 6,575	\$ 509	\$ 181		\$ 8,526
<b>Year-to-Date 2009</b>						
Net sales	\$ 1,231,761	\$ 115,323	\$ 97,062	\$ 54,507		\$ 1,498,653
Operating income	\$ 177,697	\$ 16,938	\$ 5,842	\$ 5,327	\$ (14,021)	\$ 191,783
Amortization of intangibles	\$ 5,772	\$ 8,884	\$ 1,555	\$ 703		\$ 16,914
<b>Year-to-Date 2008</b>						
Net sales	\$ 961,495	\$ 122,846	\$ 111,240	\$ 60,058		\$ 1,255,639
Operating income	\$ 120,549	\$ 27,160	\$ 16,723	\$ 6,221	\$ (16,174)	\$ 154,479
Amortization of intangibles	\$ 2,971	\$ 12,628	\$ 1,444	\$ 581		\$ 17,624

**NOTE P RESTRUCTURING**

In the fourth quarter of fiscal 2008, due to the expected loss of future contract manufacturing business with a customer beginning in the first quarter of fiscal 2009, the Company's U.K. subsidiary made the decision to restructure its workforce in order to better align its resources based on future production needs. As a result of this restructuring plan, the Company's U.K. subsidiary recorded a charge of \$1,821 in the fourth quarter of fiscal 2008 in the Company's Consumer Healthcare segment related to employee termination benefits for 108 employees, of which \$1,403 had been paid as of year-end. During the first three quarters of fiscal 2009, the Company made payments of \$224 to employees and expects to pay the remaining \$194 over the next six months. The activity of the restructuring reserve is detailed in the following table:

	Fiscal 2009 Restructuring Employee Termination
Balance at June 28, 2008	\$ 418
Payments	(224)
Balance at March 28, 2009	\$ 194

In the third quarter of fiscal 2008, due to an evaluation of its current capacity utilization of its U.S. distribution facilities, as well as freight consolidation opportunities based on its customers' geographical locations, the Company made the decision to close its West Coast distribution center. In connection with this closure, it was determined that the carrying value of certain fixed assets at the location was not fully recoverable. As a result, the Company incurred a non-cash impairment charge of \$151 in the Company's Consumer Healthcare segment in the third quarter of fiscal 2008 to reflect the difference between carrying value and the estimated fair value of the affected assets. In addition, the Company recorded a charge of \$197 related to employee termination benefits for six employees in the third quarter of fiscal 2008, all of which was paid as of December 27, 2008. The charges for asset impairment and employee

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termination benefits are included in the restructuring line of the consolidated statement of income for fiscal 2008. The Company also incurred charges of approximately \$143 related to facility closing costs during the fourth quarter of fiscal 2008.

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**Item 2.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
THIRD QUARTER FISCAL YEARS 2009 AND 2008**

(in thousands, except per share amounts)

**OVERVIEW**

*Segments* The Company has three reportable segments, aligned primarily by product: Consumer Healthcare, Rx Pharmaceuticals and API, as well as an Other category. As of March 28, 2009, the financial results of Israel Consumer Products are presented as discontinued operations. Accordingly, all periods presented for the Company's Other category have been revised to exclude results of discontinued operations and now reflect only the results of the Israel Pharmaceutical and Diagnostic Products operating segment.

The Consumer Healthcare segment includes the U.S., U.K. and Mexico operations supporting the sale of OTC pharmaceutical and nutritional products. The Rx Pharmaceuticals segment supports the development and sale of generic prescription drug products. The API segment supports the development and manufacturing of API products in Israel and Germany. The Other category consists of the Israel Pharmaceutical and Diagnostic Products operating segment, with sales primarily to the Israeli market, including manufactured and imported pharmaceutical products and medical diagnostic products. The Israel Pharmaceutical and Diagnostic Products operating segment does not meet the quantitative thresholds required to be a separately reportable segment.

In March 2009, the Company committed to a plan to sell its Israel Consumer Products business. The financial results of this business, which were previously reported as part of the Company's Other category, have been classified 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. See Note N of the notes to condensed consolidated financial statements for additional information regarding discontinued operations.

*Seasonality* The Company's sales of OTC pharmaceutical and nutritional products are subject to the seasonal demands for cough/cold/flu and allergy products. Accordingly, operating results for the first nine months of fiscal 2009 are not necessarily indicative of the results that may be expected for a full year.

*Current Year Results* Net sales from continuing operations for the third quarter of fiscal 2009 were \$505,902, an increase of 5% over fiscal 2008, and included \$47,400 of consolidated new product sales. Gross profit was \$149,592, down slightly compared to fiscal 2008. The gross profit percentage in the third quarter of fiscal 2009 was 29.6%, down from 31.3% last year. Operating expenses in the third quarter of fiscal 2009 were \$77,695, a decrease of 14% over fiscal 2008. Operating expenses as a percent of net sales were 15.4%, down from 18.8% in the third quarter of fiscal 2008. Income from continuing operations in the third quarter of fiscal 2009 was \$46,469, an increase of 16% over fiscal 2008. Net income was \$45,897, an increase of 15% over fiscal 2008.

Year-to-date net sales from continuing operations for fiscal 2009 were \$1,498,653, an increase of 19% over fiscal 2008. The increase was driven by the Consumer Healthcare segment and included \$203,700 of consolidated new product sales. Gross profit of \$432,144 was an increase of 13% over fiscal 2008,

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driven by the Consumer Healthcare segment. The year-to-date gross profit percentage in fiscal 2009 was 28.8%, down from 30.5% last year. Operating expenses were \$240,361, an increase of 5% over fiscal 2008. However, as a percentage of net sales, operating expenses were 16.0%, down from 18.2% in fiscal 2008. Income from continuing operations was \$108,818, relatively flat over fiscal 2008. Net income was \$108,848, relatively flat compared to fiscal 2008.

Further details related to current year results are included below under Results of Continuing Operations.

*Acquisitions*

*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 is the leading manufacturer of store brand pediatric electrolytes, enemas and feminine hygiene products for retail customers in the U.S. The acquisition is expected to add approximately \$50,000 of annual sales. Unico's results of operations are recorded in the Company's Consumer Healthcare segment.

*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 is a store brand manufacturer of OTC and prescription pharmaceuticals, including antibiotics, hormonals and ophthalmics. The acquisition is expected to add approximately \$15,000 of annual sales. Diba's results of operations are recorded in the Company's Consumer Healthcare segment.

*J.B. Laboratories, Inc.* On September 16, 2008, the Company acquired J.B. Laboratories, Inc. (JBL), a privately-held contract manufacturer of OTC and nutrition products for leading healthcare suppliers, for \$43,605, including debt assumed. The acquisition of JBL is expected to provide additional FDA-compliant production capacity to help service current and future customer needs. The acquisition is expected to add approximately \$70,000 of annual sales. JBL's results of operations are recorded in the Company's Consumer Healthcare segment.

*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. Brunel's results of operations are recorded in the Company's Consumer Healthcare segment.

*Galpharm Healthcare Ltd.* On January 9, 2008, the Company acquired 100% of the outstanding shares of Galpharm Healthcare Ltd. (Galpharm), a leading supplier of OTC store brand pharmaceutical products sold by supermarkets, drug stores and pharmacies in the U.K., for \$83,312. The acquisition of Galpharm expands the Company's global presence and complements its existing U.K. business. The operating results for Galpharm were included in the Consumer Healthcare segment of the Company's condensed consolidated financial statements beginning in the third quarter of fiscal 2008.

*Event Impacting Future Results*

In November 2008, the Company acknowledged the settlement of patent litigation relating to a generic to Nasacort® AQ (triamcinolone acetonide nasal spray) product brought by Sanofi-Aventis against Barr Laboratories, Inc. (Barr), a partner with the Company for this product and the holder of the Abbreviated



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New Drug Application (ANDA). The Company will share in the costs and benefits of the settlement agreement between Barr and Sanofi-Aventis and Barr's subsequent marketing of the product under the agreement, which will commence on June 15, 2011 if Barr's ANDA is approved by that date, or earlier in certain circumstances. If Barr's ANDA is not approved, Barr will have a license to launch a generic version of Nasacort® AQ, supplied by Sanofi-Aventis on December 1, 2013, or earlier in certain circumstances. In addition, the Company completed certain milestones with respect to the development of this product in the second fiscal quarter of 2009 entitling it to revenue in the amount of \$2,500. It is possible that the Company may achieve additional milestones in the future, the first of which would be achieved upon the final regulatory approval of the ANDA. The achievement of these milestones would result in a favorable impact going forward for the Rx Pharmaceuticals segment, but the potential impact is not considered to be significant to the Company's consolidated operating results.

**RESULTS OF CONTINUING OPERATIONS****Consumer Healthcare**

	Third Quarter		Year-to-Date	
	2009	2008	2009	2008
Net sales	\$ 419,148	\$ 373,031	\$ 1,231,761	\$ 961,495
Gross profit	\$ 116,068	\$ 107,819	\$ 340,351	\$ 266,728
Gross profit %	27.7%	28.9%	27.6%	27.7%
Operating expenses	\$ 53,790	\$ 56,126	\$ 162,654	\$ 146,179
Operating expenses %	12.8%	15.0%	13.2%	15.2%
Operating income	\$ 62,278	\$ 51,693	\$ 177,697	\$ 120,549
Operating income %	14.9%	13.9%	14.4%	12.5%

*Net Sales*

Third quarter net sales for fiscal 2009 increased 12% or \$46,117 compared to fiscal 2008. The increase was comprised of \$57,357 of domestic sales, partially offset by a decline of \$11,240 in international sales. The domestic increase resulted in part from approximately \$39,800 of new product sales, primarily in the gastrointestinal and cough/cold categories, along with a \$14,900 increase from higher unit sales of existing products in the smoking cessation and nutrition categories. The domestic increase also resulted from \$34,200 of sales from JBL and Unico. These combined domestic increases were partially offset by a decline of \$29,200 in sales of existing products in the gastrointestinal and cough/cold categories. The decrease in international sales was driven primarily by the impact of unfavorable changes in foreign currency exchange rates of \$12,400, as well as the absence of the U.K.'s VMS business's sales of \$9,800. These decreases were partially offset by sales of \$5,000 from acquired businesses (Brunel and Diba) and by sales of \$5,900 from new and existing products.

Year-to-date net sales for fiscal 2009 increased 28% or \$270,266 compared to fiscal 2008. The increase was comprised of \$268,941 of domestic and \$1,325 of international sales. The domestic increase resulted primarily from new product sales of approximately \$181,400, mainly in the gastrointestinal and cough/cold categories, along with a \$58,300 increase from higher unit sales of existing products in the nutrition, smoking cessation and analgesic categories. The domestic increase was also driven by

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\$67,600 of sales from JBL and Unico. These combined domestic increases were partially offset by a decline of \$34,300 in sales of existing products, primarily in the gastrointestinal and cough/cold categories. The increase in international sales was driven primarily by sales from Galpharm, Brunel and Diba of \$42,200, as well as by sales from new and existing products of \$7,300. These increases in international sales were substantially offset by the absence of the U.K. s VMS business s sales of \$25,700 and the impact of unfavorable changes in foreign currency exchange rates of \$22,400.

*Gross Profit*

Third quarter gross profit for fiscal 2009 increased 8% or \$8,249 compared to fiscal 2008. The increase resulted from a favorable mix of products sold both domestically and internationally, gross margins from sales by Unico and the absence of a \$2,878 charge to cost of sales related to the step-up in value of inventory acquired in the Galpharm acquisition that was recognized in fiscal 2008. These increases were partially offset by higher production costs and the \$5,700 impact of unfavorable changes in foreign currency exchange rates. The gross profit percentage for third quarter fiscal 2009 decreased 120 basis points over fiscal 2008 due primarily to lower gross margins associated with the nutritional product category.

Year-to-date gross profit for fiscal 2009 increased 28% or \$73,623 compared to fiscal 2008. The increase resulted from higher gross profits attributable to new products, a favorable mix of products sold both domestically and internationally and gross margins from sales by Galpharm, Unico and JBL, as well as the absence of a \$2,878 charge to cost of sales related to the step-up in value of inventory acquired in the Galpharm acquisition that was recognized in fiscal 2008. These increases were partially offset by higher raw material, production, and inventory obsolescence costs. In addition, fiscal 2009 included the impact of unfavorable changes in foreign currency exchange rates of \$11,000 and a \$2,923 charge to cost of sales related to the step-ups in value of inventory acquired in the Unico, Diba and JBL acquisitions.

*Operating Expenses*

Third quarter operating expenses for fiscal 2009 decreased 4% or \$2,336 compared to fiscal 2008. The decrease was related primarily to lower administrative expenses of \$2,700 and selling expenses of \$1,200, partially offset by increased research and development costs of \$1,900. The decrease in administrative expenses was due primarily to lower insurance costs and a one-time reimbursement of legal expense. These decreases were partially offset by the inclusion of expenses related to JBL and Unico. The majority of the decrease in selling costs related to lower commissions and promotional/marketing costs, partially offset by the inclusion of expenses for Unico. Fiscal 2008 included higher promotional/marketing costs related to the launches of new products. The research and development increase was due primarily to the timing of clinical studies, as well as the inclusion of expenses related to JBL. As a percentage of sales, third quarter fiscal 2009 operating expenses decreased 220 basis points compared to third quarter fiscal 2008.

Year-to-date operating expenses for fiscal 2009 increased 11% or \$16,475 compared to fiscal 2008. The increase was related primarily to increased research and development costs of approximately \$6,900, administrative expenses of approximately \$5,600 and selling expenses of approximately \$4,700. The research and development increase was due primarily to the timing of clinical studies, as well as the inclusion of expenses related to Galpharm and JBL. The administrative expense increase was due primarily to the inclusion of expenses related to Galpharm, JBL and Unico, which was partially offset by a reduction in employee benefit-related costs. The majority of the increase in selling costs related to the

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timing of promotional activities, higher commissions and the inclusion of expenses related to Galpharm and Unico. As a percentage of sales, year-to-date fiscal 2009 operating expenses decreased 200 basis points compared to fiscal 2008.

**Rx Pharmaceuticals**

	Third Quarter		Year-to-Date	
	2009	2008	2009	2008
Net sales	\$ 41,747	\$ 49,231	\$ 115,323	\$ 122,846
Gross profit	\$ 16,139	\$ 21,790	\$ 42,791	\$ 54,653
Gross profit %	38.7%	44.3%	37.1%	44.5%
Operating expenses	\$ 8,157	\$ 10,441	\$ 25,853	\$ 27,493
Operating expenses %	19.5%	21.2%	22.4%	22.4%
Operating income	\$ 7,982	\$ 11,349	\$ 16,938	\$ 27,160
Operating income %	19.1%	23.1%	14.7%	22.1%

*Net Sales*

Third quarter net sales for fiscal 2009 decreased 15% or \$7,484 compared to fiscal 2008. The decrease was due primarily to the absence of the fiscal 2008 receipt of a one-time cash payment of \$8,500 from a customer in lieu of expected future minimum royalty payments, as agreed upon in a license termination agreement. The decrease in net sales was also due to a \$2,200 reduction in non-product revenue, as well as pricing pressures due to continued competition in the marketplace for generic drugs. These decreases were partially offset by \$5,100 from increased sales volumes on the existing portfolio of products.

Year-to-date net sales for fiscal 2009 decreased 6% or \$7,523 compared to fiscal 2008. The decrease was due primarily to the absence of the fiscal 2008 receipt of a one-time cash payment of \$8,500 from a customer in lieu of expected future minimum royalty payments, as agreed upon in a license termination agreement. The decrease in net sales was also due to an \$8,200 reduction in non-product revenue, as well as pricing pressures due to continued competition in the marketplace for generic drugs. These decreases were partially offset by new product sales of approximately \$11,000, along with an increase in sales volumes on the Company's existing portfolio of products of approximately \$7,000.

*Gross Profit*

Third quarter gross profit for fiscal 2009 decreased 26% or \$5,651 compared to fiscal 2008. The decrease was due primarily to the fiscal 2008 license termination agreement discussed above, which had contributed a net \$5,000 to gross profit, a reduction in non-product revenue of \$2,200 and pricing pressures due to continued competition in the marketplace for generic drugs. These decreases were partially offset by increased gross margin from higher sales volumes on the existing portfolio of products.

Year-to-date gross profit for fiscal 2009 decreased 22% or \$11,862 compared to fiscal 2008. The decrease was due primarily to the \$8,200 reduction in non-product revenue, the fiscal 2008 license termination agreement discussed above, which had contributed a net \$5,000 to gross profit, along with pricing pressure on existing products. These decreases were partially offset by gross margin on new product sales of \$5,000 and a favorable mix on sales of existing products.

**Table of Contents***Operating Expenses*

Third quarter operating expenses for fiscal 2009 decreased 22% or \$2,284 compared to fiscal 2008, due primarily to a \$2,000 decrease in research and development costs related to litigation expenses along with a \$300 reduction in administrative expenses. Year-to-date operating expenses for fiscal 2009 decreased 6% or \$1,640 compared to fiscal 2008, due primarily to a \$1,600 decrease in research and development costs related to clinical trials and a \$400 decrease in selling costs. These decreases were partially offset by \$400 in higher distribution costs.

**API**

	Third Quarter		Year-to-Date	
	2009	2008	2009	2008
Net sales	\$ 30,953	\$ 37,818	\$ 97,062	\$ 111,240
Gross profit	\$ 11,387	\$ 14,618	\$ 30,437	\$ 41,762
Gross profit %	36.8%	38.7%	31.3%	37.5%
Operating expenses	\$ 7,043	\$ 8,594	\$ 24,595	\$ 25,039
Operating expenses %	22.8%	22.7%	25.3%	22.5%
Operating income	\$ 4,344	\$ 6,024	\$ 5,842	\$ 16,723
Operating income %	14.0%	15.9%	6.0%	15.0%

*Net Sales*

Third quarter net sales for fiscal 2009 decreased 18% or \$6,865 compared to fiscal 2008. This decrease was due primarily to the absence of a one-time \$4,900 accrual reversal related to a long standing customer contract negotiation recognized in fiscal 2008 and a decrease in sales volumes of existing products of approximately \$2,300, along with approximately \$2,000 resulting from unfavorable changes in foreign currency exchange rates. These decreases were partially offset by approximately \$2,300 of new product sales and payments from partners related to international product development agreements.

Year-to-date net sales for fiscal 2009 decreased 13% or \$14,178 compared to fiscal 2008. This decrease was due primarily to a decline of approximately \$16,700 in sales of three key products, the absence of the one-time \$4,900 accrual reversal mentioned above and approximately \$1,000 resulting from unfavorable changes in foreign currency exchange rates. These decreases were partially offset by a \$5,300 increase in the sales mix of existing products, along with \$3,200 of new product sales and payments from partners related to international product development agreements.

*Gross Profit*

Third quarter gross profit for fiscal 2009 decreased 22% or \$3,231 compared to fiscal 2008, due primarily to the absence of a one-time \$4,900 accrual reversal related to a long standing customer contract negotiation recognized in fiscal 2008, as well as approximately \$800 resulting from unfavorable changes in foreign currency exchange rates. These decreases were partially offset by higher gross margins on new product sales, along with positive pricing activity in the quarter.

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Year-to-date gross profit for fiscal 2009 decreased 27% or \$11,325 compared to fiscal 2008. This decrease was due primarily to approximately \$11,300 in lower margin associated with the sales decline in the three key products as discussed above, the absence of the one-time \$4,900 accrual reversal mentioned above, approximately \$4,100 of fixed overhead cost spread over lower production volumes and approximately \$2,700 resulting from unfavorable changes in foreign currency exchange rates. These margin decreases were partially offset by approximately \$11,700 of favorable changes in the remaining portfolio of existing products, along with higher gross margins on new product sales.

*Operating Expenses*

Third quarter operating expenses for fiscal 2009 decreased 18% or \$1,551 compared to fiscal 2008, due primarily to approximately \$500 of lower employee-related costs and approximately \$400 resulting from favorable changes in foreign currency exchange rates, as well as a decline in research and developmental costs of approximately \$800.

Year-to-date operating expenses for fiscal 2009 decreased 2% or \$444 compared to fiscal 2008. The decrease was due primarily to lower research and development costs related to experimental materials and subcontractor expenses of approximately \$1,100, along with lower administrative costs of approximately \$1,000. These decreases were substantially offset by unfavorable changes in foreign currency exchange rates and higher employee-related costs.

**Other**

The Other category consists of the Company's Israel Pharmaceutical and Diagnostic Products operating segment. This operating segment does not individually meet the quantitative thresholds required to be a reportable segment. Prior to the third quarter of fiscal 2009, the Other category also included the Company's Israel Consumer Products operating segment, which also did not meet the quantitative thresholds required to be a reportable segment. As discussed above in the Overview section, beginning in the third quarter of fiscal 2009, the operating results of the Israel Consumer Products operating segment are being reported as discontinued operations in the Company's condensed consolidated statements of income and have been removed from the table and discussion below for all periods presented.

	Third Quarter		Year-to-Date	
	2009	2008	2009	2008
Net sales	\$ 14,054	\$ 20,560	\$ 54,507	\$ 60,058
Gross profit	\$ 5,999	\$ 6,076	\$ 18,565	\$ 19,492
Gross profit %	42.7%	29.6%	34.1%	32.5%
Operating expenses	\$ 3,273	\$ 4,708	\$ 13,238	\$ 13,271
Operating expenses %	23.3%	22.9%	24.3%	22.1%
Operating income	\$ 2,726	\$ 1,368	\$ 5,327	\$ 6,221
Operating income %	19.4%	6.7%	9.8%	10.4%

**Table of Contents***Net Sales*

Third quarter net sales for fiscal 2009 decreased 32% or \$6,506 compared to fiscal 2008. The decrease was driven primarily by a \$4,000 impact related to a change in a customer contract whereby fiscal 2009 sales are now being recognized on a net basis. In addition, sales were unfavorably impacted by approximately \$1,100 related to changes in foreign currency exchange rates, lower sales in the diagnostic product line of approximately \$800 and lower sales of approximately \$600 due to changes in the sales mix of existing products in the remaining portfolio.

Year-to-date net sales for fiscal 2009 decreased 9% or \$5,551 compared to fiscal 2008. The decrease was driven primarily by a \$7,600 impact related to a change in the customer contract discussed above. In addition, sales in the diagnostic product line decreased by approximately \$2,400. These decreases were partially offset by \$2,300 related to changes in foreign currency exchange rates, along with increased sales of approximately \$2,100 due to changes in the sales mix of existing products in the remaining portfolio.

*Gross Profit*

Third quarter gross profit for fiscal 2009 was relatively flat compared to fiscal 2008. The approximately \$300 impact of unfavorable changes in foreign currency exchange rates was mostly offset by slightly favorable production costs. Gross profit percentage for fiscal 2009 increased 1,310 basis points compared for fiscal 2008 due primarily to the change in a customer contract discussed above.

Year-to-date gross profit for fiscal 2009 decreased 5% or \$927 compared to fiscal 2008. The decrease was due primarily to approximately \$2,600 of unfavorable changes in the sales mix of existing products, partially offset by approximately \$1,700 resulting from favorable changes in foreign currency exchange rates.

*Operating Expenses*

Third quarter operating expenses for fiscal 2009 decreased 30% or \$1,435 compared to fiscal 2008, due primarily to lower employee-related expenses and slightly favorable changes in the foreign exchange rate. Year-to-date operating expenses for fiscal 2009 were relatively flat compared to fiscal 2008.

**Unallocated Expenses**

	Third Quarter		Year-to-Date	
	2009	2008	2009	2008
Operating expenses	\$ 5,433	\$ 10,420	\$ 14,021	\$ 16,174

Unallocated expenses were comprised of certain corporate services that were not allocated to the segments. Unallocated expenses for the third quarter of fiscal 2009 decreased 48% or \$4,987 compared to fiscal 2008 due primarily to the absence of the \$2,786 in-process research and development charge related to the Galpharm acquisition, as well as lower incentive-related employee wages and benefits.

Year-to-date unallocated expenses decreased 13% or \$2,153 compared to fiscal 2008. The decrease in fiscal 2009 was due primarily to the absence of the \$2,786 in-process research and development charge related to the Galpharm acquisition, as well as lower incentive-related employee wages and benefits. These decreases were partially offset by the absence of a \$1,900 favorable settlement of a pre-acquisition legal claim related to Agis recorded in the first quarter of fiscal 2008, along with an increase in share-based compensation expense related to performance.

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### **Interest and Other (Consolidated)**

Interest expense for the third quarter was \$12,434 for fiscal 2009 and \$8,759 for fiscal 2008. Year-to-date interest expense was \$39,284 for fiscal 2009 and \$27,599 for fiscal 2008. The increase in interest expense for both the third quarter and year-to-date was due primarily to a higher debt balance following the increase in borrowings during the fourth quarter of fiscal 2008. Interest income for the third quarter was \$5,468 for fiscal 2009 and \$5,073 for fiscal 2008. Year-to-date interest income was \$18,819 for fiscal 2009 and \$15,590 for fiscal 2008. The increase in interest income for the third quarter and year-to-date was due primarily to the increase in cash and cash equivalents as a result of the increase in borrowings during the fourth quarter of fiscal 2008.

For fiscal 2009, year-to-date other expense includes \$15,104 of an other-than-temporary impairment loss associated with auction rate securities.

### **Income Taxes (Consolidated)**

The recorded effective tax rate on continuing operations was 29.2% for the first nine months of fiscal 2009 compared with the actual rate of 24.6% on continuing operations for the same period in fiscal 2008. Including the results from discontinued operations, the consolidated recorded effective tax rate was 28.6% for the first nine months of fiscal 2009 compared with the consolidated actual rate of 24.9% for the same period in fiscal 2008. Foreign source income from continuing operations before tax for the third quarter was 40% of pre-tax earnings in fiscal 2009, down from 44% in the same period of fiscal 2008. Year-to-date, foreign source income from continuing operations was 28% of pre-tax earnings in fiscal 2009, down from 44% in the same period of fiscal 2008. Foreign source income is generally derived from jurisdictions with a lower tax rate than the U.S. statutory rate, and as a result, the third quarter fiscal 2009 effective tax rate was higher than the comparable quarter of the prior year. The recorded effective tax rate for the first nine months of fiscal 2009 was reduced by \$7,180, due to expiring statutes, audit activities and/or final decisions in matters that are subject of controversy in various taxing jurisdictions in which the Company operates. During the first quarter of fiscal 2008, the Company received a favorable tax ruling in Israel that resulted in a one-time benefit of \$4,222.

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

A reduction in the reserves for uncertain tax liabilities, recorded in accordance with FASB Interpretation 48, in the amount of \$20,431 was recorded in the third quarter of fiscal 2009 related to the settlement of audit activities, including tax payments, expiring statutes and/or final decisions in matters that are subject of controversy in various taxing jurisdictions in which the Company operates. It is reasonably possible that the amount of unrecognized tax benefits may significantly change in the next twelve months. The Company is not able to reasonably estimate the changes to unrecognized tax benefits that will be required in future periods.

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**Financial Condition, Liquidity and Capital Resources**

Cash, cash equivalents and current portion of investment securities increased \$132,984 to \$197,822 at March 28, 2009 from \$64,838 at March 29, 2008. Working capital from continuing operations, including cash, increased \$159,436 to \$572,644 at March 28, 2009 from \$413,208 at March 29, 2008. The increase in working capital from continuing operations was due primarily to an increase in cash and cash equivalents as a result of the increase in borrowings during the fourth quarter of fiscal 2008.

Cash, cash equivalents and current portion of investment securities decreased \$121,337 to \$197,822 at March 28, 2009 from \$319,159 at June 28, 2008. The decrease in cash, cash equivalents and current portion of investment securities was due primarily to funding the Unico, Diba and JBL business acquisitions during the first half of fiscal 2009, as well as repurchasing shares of common stock under the Company's current repurchasing plan, partially offset by positive operating cash flow. Working capital from continuing operations, including cash, decreased \$71,244 to \$572,644 at March 28, 2009 from \$643,888 at June 28, 2008.

In addition to the cash, cash equivalents and current portion of investment securities balance of \$197,822 at March 28, 2009, the Company had \$200,000 available under its revolving loan commitment. Cash, cash equivalents, current portion of investment securities, 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 and 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 financial and credit liquidity crisis worsens (or new information becomes publicly available impacting the institutions' credit rating or capital ratios), its lenders may be unable or unwilling to lend money pursuant to the Company's existing credit facilities.

Year-to-date net cash provided from operating activities decreased by \$30,666 to \$101,583 for fiscal 2009 compared to \$132,249 for fiscal 2008. The decrease in cash from operations was due primarily to higher income tax payments, as reflected by the decrease in other, along with higher payroll and related tax payments. These decreases were partially offset by the decrease in inventories and accounts receivable.

Year-to-date net cash used for investing activities increased \$24,484 to \$119,153 for fiscal 2009 compared to \$94,669 for fiscal 2008 due primarily to the funding of the acquisitions of Unico, Diba and JBL, as well as the absence of net proceeds from the sales of securities.

Year-to-date capital expenditures for facilities and equipment were for normal replacement and productivity enhancements. With the inclusion of recent business acquisitions, capital expenditures are anticipated to be \$65,000 to \$70,000 for fiscal 2009.

Year-to-date net cash used for financing activities increased \$114,257 to \$109,845 for fiscal 2009 compared to net cash provided from financing activities of \$4,412 for fiscal 2008. The increase in cash used for financing activities was due primarily to the absence of borrowings of long-term debt, as well as a decrease in cash generated from the issuance of common stock, which were partially offset by decreased repayments of long-term debt.

During the third quarter of fiscal 2009, the Company repurchased 2 shares of its common stock for \$50, all of which related to private party transactions. During the third quarter of fiscal 2008, the Company repurchased 707 shares of its common stock for \$23,562, of which 5 shares accounted for private party transactions. Year-to-date, the Company repurchased 1,830 shares of its common stock for \$62,347 and 1,970 shares for \$58,979 in fiscal 2009 and 2008, respectively. Year-to-date, private party transactions accounted for 36 shares and 33 shares in fiscal 2009 and 2008, respectively.



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The Company paid quarterly dividends totaling \$14,786 and \$13,551, or \$0.160 and \$0.145 per share, for the first three quarters of fiscal 2009 and 2008, 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.

### *Investment Securities*

The Company currently maintains a portfolio of auction rate securities with a total par value of \$18,000 and an estimated fair value of \$4,458. During the second quarter of fiscal 2009, the Company concluded that an other-than-temporary impairment loss had occurred as a result of diminished credit ratings of the companies that issued these securities and other factors. 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. During the third quarter of fiscal 2009, the credit ratings of the companies that issued these securities remained essentially unchanged and the Company continued to earn and collect interest on these investments at the maximum contractual rate. Based on this and other qualitative factors, at March 28, 2009, the Company believes that these securities continue to be properly recorded at a fair value of \$4,458. As a result of the tightening of the credit markets beginning in calendar 2008, there is no liquid market for these securities at this time. See Note D of the notes to condensed consolidated financial statements for additional information.

### **Guaranties and Contractual Obligations**

The Company's Israeli subsidiary provides a guaranty to a bank to secure the debt of a 50% owned joint venture for approximately \$500, not to exceed 50% of the joint venture's debt. A liability was not recorded on the Company's condensed consolidated balance sheet as of March 28, 2009 for this guaranty because management has estimated that the probability of payment is remote.

During the third quarter of fiscal 2009, there were no material changes in contractual obligations.

### **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. Although the estimates are considered reasonable, actual results could differ from the estimates. The accounting estimates, discussed below, are considered by management to require the most judgment and are critical in the preparation of the financial statements. These estimates are reviewed by the Audit Committee.

*Revenue Recognition and Customer-Related Accruals* The Company records revenues from product sales when the goods are shipped to the customer. For customers with Free on Board destination terms, a provision is recorded to exclude shipments estimated to be in-transit to these customers at the end of the reporting period. A provision is recorded and accounts receivable are reduced as revenues are recognized for estimated losses on credit sales due to customer claims for discounts, price discrepancies, returned goods and other items. A liability is recorded as revenues are recognized for estimated customer program liabilities, as discussed below.

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The Company maintains customer-related accruals that consist primarily of chargebacks, rebates and shelf stock adjustments. Certain of these accruals are recorded in the balance sheet as current liabilities and others are recorded as a reduction in accounts receivable.

A chargeback relates to an agreement the Company has with a wholesaler, pharmaceutical buying group or retail customer who will ultimately purchase product from a wholesaler for a contracted price that is different than the Company's price to the wholesaler. The wholesaler will issue an invoice to the Company for the difference in the contract prices. The accrual for chargebacks is based on historical chargeback experience and confirmed wholesaler inventory levels, as well as estimated sell-through levels by wholesalers to retailers.

Rebates are payments issued to the customer when certain criteria are met, such as specific levels of product purchases, introduction of new products or other objectives. The accrual for rebates is based on contractual agreements and estimated purchasing levels by customers with such programs. Medicaid rebates are payments made to states for pharmaceutical products covered by the program. The accrual for Medicaid rebates is based on historical trends of rebates paid and current period sales activity.

Shelf stock adjustments are credits issued to reflect decreases in the selling price of a product and are based upon estimates of the amount of product remaining in a customer's inventory at the time of the anticipated price reduction. In many cases, the customer is contractually entitled to such a credit. The accrual for shelf stock adjustments is based on specified terms with certain customers, estimated launch dates of competing products and estimated declines in market price.

Changes in these estimates and assumptions may result in additional customer-related accruals. The following table summarizes the activity included in the balance sheet for customer-related accruals:

	Year-to-Date 2009	Year-to-Date 2008
<b>Customer-Related Accruals</b>		
Balance, beginning of period	\$ 56,509	\$ 51,488
Provision recorded	208,509	184,584
Credits processed	(210,496)	(187,596)
<b>Balance, end of the period</b>	<b>\$ 54,522</b>	<b>\$ 48,476</b>

*Allowance for Doubtful Accounts* The Company maintains an allowance for doubtful accounts that reduces receivables to amounts that are expected to be collected. In estimating the allowance, management considers factors such as current overall and industry-specific economic conditions, statutory requirements, historical and anticipated customer performance, historical experience with write-offs and the level of past-due amounts. Changes in these conditions may result in additional allowances. The allowance for doubtful accounts was \$9,750 at March 28, 2009, \$7,511 at June 28, 2008, and \$7,419 at March 29, 2008.

*Inventory Reserves* The Company maintains reserves for estimated obsolete or unmarketable inventory based on the difference between the cost of the inventory and its estimated market value. In estimating the reserves, management considers factors such as excess or slow-moving inventories, product expiration dating, products on quality hold, current and future customer demand and market conditions. Changes in these conditions may result in additional reserves.

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*Goodwill* Goodwill is tested for impairment annually or more frequently if changes in circumstances or the occurrence of events suggest impairment exists. The test for impairment requires the Company to make several estimates about fair value, most of which are based on projected future cash flows. The estimates associated with the goodwill impairment tests are considered critical due to the judgments required in determining fair value amounts, including projected future cash flows. Changes in these estimates may result in the recognition of an impairment loss. Goodwill allocated to the Consumer Healthcare segment is tested annually for impairment in the second quarter of the fiscal year. The goodwill allocated to the API and Rx Pharmaceuticals segments is tested for impairment annually in the third quarter of the fiscal year. The current year testing in both the second and third quarter resulted in no impairment charge. The Company's Rx and API businesses are heavily dependent on new products currently under development. The termination of certain key product development projects could have a materially adverse impact on the future results of the Rx Pharmaceuticals or API segment, which may include a charge for goodwill impairment. A change in market dynamics or failure of operational execution for the Company's Consumer Healthcare U.K. operations could result in a materially adverse impact on its future results, which could result in a charge for goodwill impairment. Goodwill was \$245,653 at March 28, 2009, \$282,417 at June 28, 2008 and \$264,913 at March 29, 2008.

*Other Intangible Assets* Other intangible assets consist of a portfolio of individual developed product technology/formulation and product rights, distribution and license agreements, customer relationships, non-competition agreements and trade names and trademarks. The assets categorized as developed product technology/formulation and product rights, as well as distribution and license agreements and non-competition agreements, are amortized over their estimated useful economic lives using the straight-line method. An accelerated method of amortization is used for customer relationships. Certain trade names and trademarks are determined to have an indefinite useful life and are not subject to amortization. The Company, however, reviews them for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that any individual asset might be impaired, and adjusts the carrying value of the asset as necessary. For intangible assets subject to amortization, an impairment analysis is performed whenever events or changes in circumstances indicate that the carrying amount of any individual asset may not be recoverable. The carrying amount of an intangible asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. An impairment loss is recognized if the carrying amount of the asset is not recoverable and its carrying amount exceeds its fair value. Other intangible assets had a net carrying value of \$212,400 at March 28, 2009, \$225,419 at June 28, 2008 and \$227,041 at March 29, 2008.

*Income Taxes* The Company's effective income tax rate is based on income, statutory tax rates, special tax benefits and tax planning opportunities available to the Company in the various jurisdictions in which it operates. The effective income tax rate is calculated using actual information year-to-date and annualized forecasted information for the remaining portion of the fiscal year, excluding discrete items. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining the Company's tax expense and in evaluating tax positions. Tax positions are reviewed quarterly, and balances are adjusted as new information becomes available.

The Company has established valuation allowances against a portion of its non-U.S. net operating losses and U.S. state-related net operating losses to reflect the uncertainty of its ability to fully utilize these benefits given the limited carryforward periods permitted by the various jurisdictions. The evaluation of the Company's ability to realize net operating losses requires the use of considerable management judgment to estimate the future taxable income for the various jurisdictions, for which the ultimate amounts and timing of such realization may differ. The valuation allowances can also be impacted by changes in the tax regulations.

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Significant judgment is required in determining the Company's contingent tax liabilities. The Company recognizes accrued interest and penalties related to contingent tax liabilities in its tax expense. The Company has established contingent tax liabilities using management's best judgment and adjusts these liabilities as warranted by changing facts and circumstances. A change in tax liabilities in any given period could have a significant impact on the Company's results of operations and cash flows for that period.

**Recently Issued Accounting Standards**

See Note A to the condensed consolidated financial statements for information.

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

The Company is exposed to market risk due to changes in interest rates 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. 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 auction rate securities totaling \$18,000 in par value. Auction rate securities are privately placed variable rate debt instruments whose interest rates are reset within a contractual range, approximately every 7 to 35 days. With the tightening of the credit markets beginning in calendar 2008, auction rate securities 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 auction rate securities cannot be determined by the auction process until liquidity is restored to these markets.

In the second quarter of fiscal 2009, the Company concluded that an other-than-temporary impairment loss had occurred as a result of diminished credit ratings of the companies that issued these securities and other factors. Accordingly, the Company recorded an other-than-temporary loss of \$15,104 within other expense in its condensed consolidated statement of income for the second quarter of fiscal 2009. At December 27, 2008, these securities were recorded at a fair value of \$4,458. During the third quarter of fiscal 2009, the credit ratings of the companies that issued these securities remained essentially unchanged. Based on this and other qualitative factors, at March 28, 2009, the Company believes that these securities continue to be properly recorded at a fair value of \$4,458. 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.

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The Company makes contributions to its Israeli post employment fund as required by Israeli law. The assets that support this fund are subject to fluctuations in market value. For the year-to-date period ended March 28, 2009, the Company recognized approximately \$2,200 in operating expenses related to the decrease in Israeli post employment fund assets.

*Foreign Exchange Risk* The Company has operations in Israel, the U.K., Mexico and Germany. 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, while these operations incur costs in their local currency. In the API segment, net sales are recorded in both euros and U.S. dollars, while its costs are recorded primarily in Israeli shekels, as well as in euros and U.S. dollars. In the Israel Pharmaceutical and Diagnostic Products operating segment, net sales are recorded primarily in Israeli shekels and euros, while its costs are recorded primarily in euros. 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. On a consolidated basis, the net foreign currency impact is not material.

The Company monitors and strives to manage risk related to foreign currency exchange. 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. However, 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 Annual Report on Form 10-K filed for the fiscal year ended June 28, 2008 for additional information regarding market risks.

### **Item 4. Controls and Procedures**

As of March 28, 2009, 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 March 28, 2009 were identified that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings (in thousands)**

On March 11, 2009, a purported shareholder of the Company named Michael L. Warner filed a lawsuit in the United States District Court for the Southern District of New York against the Company and certain of its officers and directors, including the President and Chief Executive Officer and the Chief Financial Officer. The plaintiff seeks 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 alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The plaintiff generally alleges 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, had been purchased from Lehman Brothers Holdings, Inc. (Lehman). The plaintiff asserts that omission of the identity of Lehman as the seller of the auction rate securities was material because after Lehman's bankruptcy filing on September 15, 2008, the Company allegedly became unable to look to Lehman to repurchase the auction rate securities at a price near par value. The complaint seeks unspecified damages and unspecified equitable or injunctive relief, along with costs and attorneys' fees. The Company believes that the allegations in the complaint are without merit and intends to defend them vigorously. Although the outcome of this litigation cannot be forecasted with reasonable certainty, management does not expect the final disposition of the litigation to have a material adverse effect on the Company's consolidated financial position or results of operations.

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. 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 \$74,800. While the Company intends to vigorously defend against these claims, the Company cannot reasonably predict at this time the outcome or the liability, if any, associated with these claims.

**Item 1A. Risk Factors (in thousands)**

The Company's Annual Report on Form 10-K filed for the fiscal year ended June 28, 2008 includes a detailed discussion of the Company's risk factors. Other than the items noted below, there have been no material changes to the risk factors that were included in the Form 10-K during the first three quarters of fiscal 2009.

*Cough and Cold Products*

In October 2007, the Federal Drug Administration (FDA) convened a joint meeting of the Pediatric and Non-Prescription Drugs Advisory committees to discuss the safety and efficacy of OTC cough and cold products for use in children. The advisory committees recommended that these products no longer be used in children under the age of six. In January 2008, the FDA issued a Public Health Advisory recommending against the use of OTC cough and cold products in children under two years of age and announced that the FDA planned to issue recommendations in the second quarter of 2008 with respect to the use of OTC cough and cold products in children two through eleven years of age. The FDA had

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also indicated that the recommendations could include removing pediatric cough and cold products from the marketplace altogether by issuing a proposed rule recommending OTC cough and cold products for children under twelve generally not be recognized as safe and effective. On October 8, 2008, the FDA issued a statement supporting the voluntary action of the Consumer Healthcare Product Association (CHPA), of which the Company is a member, to modify product labels for consumers of OTC cough and cold medicines to state "do not use" in children under four years of age. The Company's fiscal 2008 revenues for cough and cold products marketed specifically for use in children ages four to twelve years old were approximately \$12,000. Sales of the Company's pediatric cough and cold products could be adversely affected by such recommendations.

*Oral Saline Phosphate Products*

On December 11, 2008, the FDA issued a field alert related to the use of oral sodium phosphate (OSP) products for bowel cleansing. The FDA announcement does not apply to the use of OSP products sold over-the-counter as laxatives. However, as a result of the field alert, the Company recalled all OSP products and is changing the label of all OSP products in accordance with the guidance in the FDA announcement. Future sales of the Company's OSP products, which are estimated to be approximately \$450 for fiscal 2009, could be adversely affected by the FDA announcement and recall.

*Pseudoephedrine*

Several Arkansas counties, led by and including Independence County, filed a lawsuit against the Company and various manufacturers and distributors of products containing pseudoephedrine (PSE), which can be used to produce methamphetamine, an illegal drug. Through this lawsuit, the plaintiff counties sought to recoup as damages some of the expenses they have incurred to combat methamphetamine use and addiction. They also sought punitive damages, disgorgement of profits and attorneys' fees. On February 11, 2008, the court granted defendants motion for summary judgment and dismissed this case with prejudice. On January 5, 2009, the Eighth Circuit Court of Appeals affirmed the prior district court order and dismissed the case with prejudice. Plaintiffs did not appeal this decision.

The Company produces a number of products that contain the active ingredient PSE, which is indicated as a decongestant. PSE has been under scrutiny as an ingredient illegally used to create methamphetamine. To address this concern, legislation has been enacted at the federal level over the past few years to place restrictions on the sales of PSE products (i.e., Combat Methamphetamine Act) and authorizing the Drug Enforcement Agency to place quotas on the amounts of PSE products that can be manufactured (i.e., the Controlled Substances Act). At the state level, a number of states have introduced or passed legislation placing additional restrictions on the sale of PSE products. In addition, in 2006, the State of Oregon moved PSE products to prescription (Rx) status; since then, a few other states have considered moving PSE products to Rx status. Sales of PSE products by the Company in fiscal year 2008 were approximately \$27,000. Sales of PSE products could be adversely affected by action at the state or federal level to place additional restrictions on the sale of PSE products.

*Dextromethorphan*

The Company manufactures several products that contain the active ingredient dextromethorphan, which is indicated for cough suppression. Dextromethorphan has come under scrutiny because of its potential to be abused. Some states have introduced legislation that, if passed, could require restricted access to dextromethorphan in finished dosage forms. Such legislation placing age restrictions on the purchase of OTC products containing dextromethorphan was passed at the local level by Suffolk County, New York, Westchester County, New York and by the City of Jerseyville, Illinois. At least one state has passed legislation restricting the bulk sale of dextromethorphan.

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In October 2007, the Dextromethorphan Abuse Reduction Act of 2007 was introduced in the 110th U.S. Congress, and, if passed, would have prevented individuals under the age of 18 from purchasing OTC cough medicine containing dextromethorphan in finished dosages and concentrations. This proposed legislation did not become law. In March 2009, the Dextromethorphan Abuse Reduction Act of 2009 was approved by the U.S. House of Representatives. This legislation, if enacted, would generally prohibit the bulk sale of dextromethorphan. At the state level, in 2008, a number of states introduced legislation to impose similar age restrictions on purchases of dextromethorphan in finished dosages. However, no such legislation has yet been adopted by a state. It is possible that any of the states or the federal government could introduce and pass legislation imposing additional or different restrictions on the sale of dextromethorphan in finished dosage form, including but not limited to, requiring a minimum age to purchase product, requiring a prescription and/or placing the product in a more controlled position of sale behind the pharmacy counter of a retailer. In fiscal 2008, products containing dextromethorphan generated revenues of approximately \$79,000. The Company cannot predict whether any of the proposed legislation will be passed or, if it is passed, its impact on future revenues attributable to these products.

### *Acetaminophen*

The Company manufactures several products that contain the active ingredient acetaminophen, which is indicated as an analgesic. On April 23, 2009, the FDA published a notice in the Federal Register for a public advisory committee meeting to be held on June 29 and 30, 2009 to discuss how to address the public health problem of liver injury related to the use of acetaminophen in both OTC and Rx products. The FDA expressly states in the notice that it is not seeking to remove acetaminophen from the market and that the risk of developing liver injury to the individual patient who uses the drug according to directions is very low. Due to the extensive use of acetaminophen products itself, however, the FDA desires to find ways to reduce the absolute number of liver injury cases associated with acetaminophen. In fiscal 2008, products containing acetaminophen generated revenues of approximately \$65,000 for the Company. The Company cannot predict whether the public advisory committee will make any recommendations regarding the sale and use of acetaminophen or whether any such recommendations, if adopted by the FDA, would impact future revenues attributable to these products.

### *Conditions in Israel*

The Company has significant manufacturing and research and development facilities in Israel. Political, economic and military conditions in Israel directly affect the Company's operations, and the Company could be adversely affected by current or future hostilities involving Israel or a significant recession or downturn in the economic or financial condition of Israel.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its neighboring countries. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel in recent years. The level of hostilities increased significantly in July 2006 between Israel and Hezbollah in neighboring Lebanon. In the first quarter of fiscal 2007, these hostilities abated significantly. However, tensions in the region increased significantly during the third quarter of fiscal 2009 between Israel and Hamas in the Gaza strip. These hostilities can adversely affect Israel's relationship with a number of countries in the region and elsewhere, as well as its relationship with international organizations.



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While none of the Company's facilities in Israel have been directly affected by hostile operations, there can be no assurance that a further escalation of hostilities will not impact the Company's facilities. Furthermore, the Company's employees in Israel include members of the Israeli military reserves, some of whom have been called up for active duty. If a significant number of the Company's employees in Israel are called up for active duty in the military, the Company's operations in Israel may be materially adversely affected.

Escalations of hostilities have disruptive effects on Israel's economy, and any international economic sanctions against Israel could further harm Israel's economy. These economic developments could have an adverse effect on the Company's Israel Consumer Products and Israel Pharmaceutical and Diagnostic Products businesses.

Furthermore, certain parties with whom the Company does business may decline to travel to Israel, which would force the Company to make alternative arrangements where necessary. The United States Department of State has at times issued an advisory regarding travel to various sections of Israel. As a result of the State Department's advisories, the FDA has at various times curtailed or prohibited its inspectors from traveling to Israel to inspect the facilities of Israeli companies, and should this occur with respect to the Company's Israeli facilities, the FDA could withhold approval for new products intended to be produced at those facilities.

Although it has not yet occurred, the political and security situation in Israel may result in certain parties with whom the Company has contracts claiming that they are not obligated to perform their commitments pursuant to force majeure provisions of those contracts.

The Company could experience disruption of its manufacturing and research and development facilities due to terrorist acts or military actions. If terrorist acts or military actions were to result in substantial damage to the Company's facilities, business activities would be disrupted since, with respect to most products, the Company would need to obtain prior FDA approval for a change in manufacturing site. The Company's insurance may not adequately compensate it for losses that may occur and any losses or damages incurred by the Company could have a material adverse effect on its business.

Some neighboring countries, as well as certain companies and organizations, continue to participate in a boycott of Israeli firms and others doing business with Israel or with Israeli companies. The Company is also precluded from marketing its products to certain of these countries due to U.S. and Israeli regulatory restrictions. Because none of the Company's revenue is currently derived from sales to these countries, the Company believes that the boycott has not had a material adverse effect on its current operations. However, continuation or extension of the boycott or implementation of additional restrictive laws, policies or practices directed towards Israel or Israeli businesses could have an adverse impact on the expansion of the Company's business.

### *Financial and Credit Liquidity Crisis*

The financial and credit liquidity crisis could have a negative impact on the Company's business. Although the Company's lenders have made commitments to make funds available to it in a timely fashion, if the current financial and credit liquidity crisis worsens (or new information becomes publicly available impacting the institutions' credit rating or capital ratios), its lenders may be unable or unwilling to lend money pursuant to the Company's existing credit facilities. In addition, if the Company determines that it is appropriate or necessary to raise capital in the future, the cost of raising funds through the debt or equity markets may be more expensive or those markets may be unavailable. If the Company is unable to use its existing credit facilities or raise funds through debt or equity markets, it could materially and adversely affect the Company's liquidity or ability to follow its key growth strategies.

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The Company's customers and suppliers may be adversely affected by the financial and credit liquidity crisis. Although the Company actively reviews the credit worthiness of its customers and suppliers, it cannot fully predict to what extent they may be negatively impacted and thus to what extent its own operations would be disrupted.

In addition, the value of the Company's assets, including securities held for investment, may be adversely affected by the financial and liquidity crisis.

Further declines in global financial markets could contribute to a reduction of the Company's stock price, liquidity and overall financial condition.

*Business Acquisitions*

The Company's failure to successfully integrate acquisitions could have a negative effect on its operations. In addition, the lack of performance of acquisitions could cause financial difficulties.

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.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds (in thousands, except per share amounts)**

On February 1, 2008, the Board of Directors approved a plan to repurchase shares of common stock with a value of up to \$150,000. This plan will expire on February 2, 2010. The Company has a 10b5-1 plan that allows brokers selected by the Company to repurchase shares on behalf of the Company at times when it would ordinarily not be in the market because of the Company's trading policies. The amount of common stock repurchased in accordance with the 10b5-1 plan on any given day is determined by the plan's formula, which is generally based on the market price of the Company's stock. The Company is not currently utilizing the 10b5-1 plan to effect purchases, but may resume doing so at any time, subject to remaining availability under the Board approval. 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 table below lists the Company's repurchases of shares of common stock during its most recently completed quarter:

Fiscal 2009	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Value of Shares Available for Purchase
				\$ 68,542
December 28 to January 31		\$		\$ 68,542
February 1 to February 28	1	\$ 22.84		\$ 68,542
March 1 to March 28	1	\$ 23.33		\$ 68,542
<b>Total</b>	<b>2</b>			

(1) Private party transactions accounted for the purchase of 1 share in the period from February 1 to February 28 and 1 share in the period from March 1 to March 28.

**Item 5. Other Information (in thousands)**

On May 5, 2009, the Company and Mori Arkin, a member of the Company's Board of Directors, agreed to terminate effective immediately the Consulting Agreement (Agreement) by and between the Company and Mr. Arkin, dated as of May 1, 2008. Pursuant to this Agreement, Mr. Arkin provided advice and consultation concerning the Company's generic prescription, API, and Israeli-pharmaceutical businesses. During the term of the Agreement, the Company paid Mr. Arkin an annual fee of \$370. Mr. Arkin remains subject to a confidentiality provision for five years after the later of 1) the termination of the Agreement or 2) termination of Mr. Arkin's service as a director on the Company's Board of Directors. In addition, Mr. Arkin will not compete with the Company for one year after the termination of the Agreement unless he obtains written consent from the Company's Board of Directors.

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**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
31	Rule 13a-14(a) Certifications.
32	Section 1350 Certifications.

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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: May 7, 2009

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

Date: May 7, 2009

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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31	Rule 13a-14(a) Certifications.
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