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PERRIGO CO  
Form 10-Q  
May 08, 2007

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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 31, 2007

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  
EXECUTIVE OFFICES)

49010  
-----

(ZIP CODE)

(269) 673-8451  
-----

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

NOT APPLICABLE  
-----

(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR,  
IF CHANGED SINCE LAST REPORT)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

LARGE ACCELERATED FILER [X] ACCELERATED FILER [ ] NON-ACCELERATED FILER [ ]

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

As of May 4, 2007, the registrant had 92,705,432 outstanding shares of common stock.

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PERRIGO COMPANY

FORM 10-Q

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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

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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 of those terms or other comparable terminology. Please see Item 1A of the Company's Form 10-K for the year ended July 1, 2006 and Item 1A of this Form 10-Q for a discussion of certain important risk factors that relate to forward-looking statements contained in this report. The Company has based these forward-looking statements on its current expectations, assumptions, estimates and projections. While the Company believes these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond the Company's control. These and other important factors may cause actual results, performance or achievements to differ materially from those expressed or implied by these forward-looking statements. The forward-looking statements in this report are made only as of the date hereof, and unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

|                                                  | Third Quarter |            | Year-to-Date |              |
|--------------------------------------------------|---------------|------------|--------------|--------------|
|                                                  | 2007          | 2006       | 2007         | 2006         |
| Net sales                                        | \$ 362,288    | \$ 332,321 | \$ 1,073,132 | \$ 1,011,752 |
| Cost of sales                                    | 262,079       | 235,043    | 779,981      | 721,988      |
| Gross profit                                     | 100,209       | 97,278     | 293,151      | 289,764      |
| Operating expenses                               |               |            |              |              |
| Distribution                                     | 7,020         | 6,438      | 21,559       | 20,541       |
| Research and development                         | 16,390        | 12,260     | 44,339       | 37,135       |
| Selling and administration                       | 44,710        | 48,225     | 142,423      | 141,695      |
| Subtotal                                         | 68,120        | 66,923     | 208,321      | 199,371      |
| Write-off of in-process research and development | 8,252         | --         | 8,252        | --           |
| Restructuring                                    | 306           | --         | 948          | --           |
| Total                                            | 76,678        | 66,923     | 217,521      | 199,371      |

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|                                     |           |           |           |           |
|-------------------------------------|-----------|-----------|-----------|-----------|
| Operating income                    | 23,531    | 30,355    | 75,630    | 90,393    |
| Interest, net                       | 3,650     | 2,465     | 11,536    | 11,606    |
| Other income, net                   | (1,874)   | (2,310)   | (4,193)   | (9,346)   |
|                                     | -----     | -----     | -----     | -----     |
| Income before income taxes          | 21,755    | 30,200    | 68,287    | 88,133    |
| Income tax expense                  | 4,699     | 9,339     | 13,261    | 28,995    |
|                                     | -----     | -----     | -----     | -----     |
| Net income                          | \$ 17,056 | \$ 20,861 | \$ 55,026 | \$ 59,138 |
|                                     | =====     | =====     | =====     | =====     |
| Earnings per share                  |           |           |           |           |
| Basic                               | \$ 0.19   | \$ 0.23   | \$ 0.60   | \$ 0.64   |
| Diluted                             | \$ 0.18   | \$ 0.22   | \$ 0.59   | \$ 0.63   |
| Weighted average shares outstanding |           |           |           |           |
| Basic                               | 91,643    | 92,683    | 92,161    | 92,966    |
| Diluted                             | 93,298    | 94,044    | 93,604    | 94,143    |
| Dividends declared per share        | \$ 0.045  | \$ 0.043  | \$ 0.133  | \$ 0.125  |

See accompanying notes to condensed consolidated financial statements.

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PERRIGO COMPANY  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands)

|                                           | March 31,<br>2007 | July 1,<br>2006 | March<br>2006 |
|-------------------------------------------|-------------------|-----------------|---------------|
|                                           | -----             | -----           | -----         |
|                                           | (unaudited)       |                 | (unaudited)   |
| Assets                                    |                   |                 |               |
| Current assets                            |                   |                 |               |
| Cash and cash equivalents                 | \$ 34,873         | \$ 19,018       | \$ 29,000     |
| Investment securities                     | 58,220            | 26,733          | 6,000         |
| Accounts receivable                       | 246,582           | 240,130         | 220,000       |
| Inventories                               | 310,272           | 302,941         | 273,000       |
| Current deferred income taxes             | 39,122            | 52,058          | 47,000        |
| Prepaid expenses and other current assets | 23,833            | 16,298          | 16,000        |
|                                           | -----             | -----           | -----         |
| Total current assets                      | 712,902           | 657,178         | 593,000       |
| Property and equipment                    | 641,343           | 606,907         | 599,000       |
| Less accumulated depreciation             | 320,672           | 287,549         | 281,000       |
|                                           | -----             | -----           | -----         |
|                                           | 320,671           | 319,358         | 317,000       |
| Restricted cash                           | 422,000           | 400,000         | 400,000       |
| Goodwill                                  | 189,450           | 152,183         | 147,000       |
| Other intangible assets                   | 155,899           | 132,426         | 138,000       |
| Non-current deferred income taxes         | 42,624            | 43,143          | 32,000        |
| Other non-current assets                  | 47,015            | 46,336          | 41,000        |
|                                           | -----             | -----           | -----         |

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|                                                              |              |              |              |
|--------------------------------------------------------------|--------------|--------------|--------------|
|                                                              | \$ 1,890,561 | \$ 1,750,624 | \$ 1,670,000 |
|                                                              | =====        | =====        | =====        |
| Liabilities and Shareholders' Equity                         |              |              |              |
| Current liabilities                                          |              |              |              |
| Accounts payable                                             | \$ 158,499   | \$ 179,740   | \$ 163,000   |
| Notes payable                                                | 3,763        | 20,081       | 26,000       |
| Payroll and related taxes                                    | 43,590       | 54,153       | 48,000       |
| Accrued customer programs                                    | 40,494       | 49,534       | 46,000       |
| Accrued liabilities                                          | 48,135       | 45,335       | 46,000       |
| Accrued income taxes                                         | 16,210       | 14,132       | 7,000        |
| Current deferred income taxes                                | 13,886       | 8,456        | 9,000        |
| Current portion of long-term debt                            | 14,910       | --           | --           |
|                                                              | -----        | -----        | -----        |
| Total current liabilities                                    | 339,487      | 371,431      | 347,000      |
| Non-current liabilities                                      |              |              |              |
| Long-term debt                                               | 709,342      | 621,717      | 594,000      |
| Non-current deferred income taxes                            | 102,129      | 81,923       | 68,000       |
| Other non-current liabilities                                | 34,346       | 34,809       | 35,000       |
|                                                              | -----        | -----        | -----        |
| Total non-current liabilities                                | 845,817      | 738,449      | 698,000      |
| Shareholders' equity                                         |              |              |              |
| Preferred stock, without par value, 10,000 shares authorized | --           | --           | --           |
| Common stock, without par value, 200,000 shares authorized   | 507,025      | 516,098      | 518,000      |
| Accumulated other comprehensive income (loss)                | 34,434       | 3,593        | (7,000)      |
| Retained earnings                                            | 163,798      | 121,053      | 112,000      |
|                                                              | -----        | -----        | -----        |
| Total shareholders' equity                                   | 705,257      | 640,744      | 624,000      |
|                                                              | -----        | -----        | -----        |
|                                                              | \$ 1,890,561 | \$ 1,750,624 | \$ 1,670,000 |
|                                                              | =====        | =====        | =====        |
| Supplemental Disclosures of Balance Sheet Information        |              |              |              |
| Allowance for doubtful accounts                              | \$ 9,933     | \$ 11,178    | \$ 10,000    |
| Allowance for inventory                                      | \$ 37,390    | \$ 42,509    | \$ 43,000    |
| Working capital                                              | \$ 373,415   | \$ 285,747   | \$ 245,000   |
| Preferred stock, shares issued                               | --           | --           | --           |
| Common stock, shares issued                                  | 92,510       | 92,922       | 93,000       |

See accompanying notes to condensed consolidated financial statements.

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

|                                            |              |           |
|--------------------------------------------|--------------|-----------|
|                                            | Year-to-Date |           |
|                                            | -----        | -----     |
|                                            | 2007         | 2006      |
|                                            | -----        | -----     |
| Cash Flows (For) From Operating Activities |              |           |
| Net income                                 | \$ 55,026    | \$ 59,138 |

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|                                                   |           |           |
|---------------------------------------------------|-----------|-----------|
| Adjustments to derive cash flows                  |           |           |
| Write-off of in-process research and development  | 8,252     | --        |
| Depreciation and amortization                     | 41,997    | 42,155    |
| Share-based compensation                          | 6,530     | 7,274     |
| Deferred income taxes                             | 12,749    | (2,707)   |
|                                                   | -----     | -----     |
| Sub-total                                         | 124,554   | 105,860   |
|                                                   | -----     | -----     |
| Changes in operating assets and liabilities       |           |           |
| Accounts receivable                               | (8,616)   | (8,701)   |
| Inventories                                       | (4,224)   | 1,201     |
| Accounts payable                                  | (19,254)  | 19,180    |
| Payroll and related taxes                         | (10,151)  | 5,928     |
| Accrued customer programs                         | (9,040)   | 4,354     |
| Accrued liabilities                               | 2,968     | (12,358)  |
| Accrued income taxes                              | 3,008     | (17,480)  |
| Other                                             | (5,084)   | 12,648    |
|                                                   | -----     | -----     |
| Sub-total                                         | (50,393)  | 4,772     |
|                                                   | -----     | -----     |
| Net cash from operating activities                | 74,161    | 110,632   |
|                                                   | -----     | -----     |
| Cash Flows (For) From Investing Activities        |           |           |
| Purchases of securities                           | (228,341) | (29,134)  |
| Proceeds from sales of securities                 | 198,530   | 39,384    |
| Additions to property and equipment               | (30,133)  | (18,672)  |
| Proceeds from sale of property and equipment      | 2,613     | --        |
| Acquisition of assets                             | (59,538)  | --        |
|                                                   | -----     | -----     |
| Net cash for investing activities                 | (116,869) | (8,422)   |
|                                                   | -----     | -----     |
| Cash (For) From Financing Activities              |           |           |
| Borrowings (repayments) of short-term debt, net   | (16,293)  | 1,543     |
| Borrowings of long-term debt                      | 130,000   | 15,000    |
| Repayments of long-term debt                      | (30,000)  | (75,000)  |
| Tax effect of stock transactions                  | (30)      | (762)     |
| Issuance of common stock                          | 5,347     | 5,223     |
| Repurchases of common stock                       | (20,919)  | (20,488)  |
| Cash dividends                                    | (12,281)  | (11,660)  |
|                                                   | -----     | -----     |
| Net cash (for) from financing activities          | 55,824    | (86,144)  |
|                                                   | -----     | -----     |
| Net increase in cash and cash equivalents         | 13,116    | 16,066    |
| Cash and cash equivalents, beginning of period    | 19,018    | 16,707    |
| Effect of exchange rate changes on cash           | 2,739     | (3,605)   |
|                                                   | -----     | -----     |
| Cash and cash equivalents, end of period          | \$ 34,873 | \$ 29,168 |
|                                                   | =====     | =====     |
| Supplemental Disclosures of Cash Flow Information |           |           |
| Cash paid/received during the period for:         |           |           |
| Interest paid                                     | \$ 25,547 | \$ 27,093 |
| Interest received                                 | \$ 15,119 | \$ 15,870 |
| Income taxes paid                                 | \$ 8,500  | \$ 40,106 |
| Income taxes refunded                             | \$ 8,443  | \$ 5,239  |

See accompanying notes to condensed consolidated financial statements.

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PERRIGO COMPANY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2007  
(in thousands, except per share amounts)

Perrigo Company is a leading global healthcare supplier that develops, manufactures and distributes over-the-counter (OTC) and prescription pharmaceuticals, nutritional products, active pharmaceutical ingredients (API) and consumer products. The Company is the world's largest manufacturer of OTC pharmaceuticals and nutritional products for the store brand market.

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles 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 amounts in the prior years to conform to the current year presentation.

Operating results for the three quarters ended March 31, 2007 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 July 1, 2006.

### New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation 48, "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement 109, Accounting for Income Taxes" (FIN 48), which clarifies the accounting for uncertainty in income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation requires that the Company recognize in the financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006 with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The adoption of the interpretation is not expected to have a material impact on the Company's consolidated results of operations or financial position.

In June 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on EITF Issue 06-03, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)". The scope of this Issue includes taxes that are externally imposed on a revenue producing transaction between a seller and a customer. The EITF concluded that a company should disclose its accounting policy (i.e., gross or net presentation) regarding the presentation of such taxes. If taxes included in gross revenues are significant, a company

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should disclose the amount of such taxes for each period for which an income statement is presented. The EITF was effective as of the third quarter of fiscal 2007 and had no impact on the Company's consolidated financial statements. The Company records such taxes on a net basis.

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In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) 157, "Fair Value Measurements". This statement clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures on fair value measurements. SFAS 157 is effective for the Company's fiscal year ending June 27, 2009. The Company has not yet determined if the adoption of this statement will have a material impact on its consolidated results of operations or financial position.

In September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements 87, 88, 106 and 132(R)". SFAS 158 requires companies to recognize a net liability or asset and an offsetting net of tax adjustment to accumulated other comprehensive income to report the funded status of defined benefit pension and other postretirement benefit plans. SFAS 158 requires prospective application, and the recognition and disclosure requirements are effective for the Company's fiscal year ending June 30, 2007. Based on preliminary evaluations of SFAS 158, the Company does not expect the adoption of this requirement of the statement to have a material impact on its results of operations or financial position. Additionally, SFAS 158 requires companies to measure plan assets and obligations at their year-end balance sheet date. This requirement is effective for the Company's fiscal year ending June 27, 2009. Since the Company's measurement date currently aligns with its year-end balance sheet date, this requirement will have no impact on the Company's consolidated results of operations or financial position.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year's financial statements are materially misstated. SAB 108 becomes effective during the Company's 2007 fiscal year. The Company does not expect that the adoption of SAB 108 will have a material impact on its consolidated results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities -- including an amendment of FAS 115," which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of this statement is to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of SFAS No. 159 are effective for fiscal years beginning after November 15, 2007. The adoption of this statement is not expected to have a material impact on the Company's consolidated results of operations or financial position.

### NOTE B - ACQUISITIONS

Qualis, Inc. - On March 7, 2007, the Company announced that it entered into a purchase agreement to acquire Qualis, Inc., a privately-owned manufacturer of store brand pediculicide products, for \$12,000. The assets to be acquired in this transaction consist of the intangible assets attributable to the products acquired, which include primarily store brand over-the-counter product formulations that compare to Rid(R) and Nix(R). The transaction is expected to



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close on or around June 30, 2007.

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Glades Pharmaceuticals, Inc. - On March 26, 2007, the Company acquired certain generic prescription dermatological products from Glades Pharmaceuticals, Inc. (Glades) for approximately \$57,000 in cash plus \$2,500 of consideration for future research and development collaborations. These assets are included in the accompanying consolidated balance sheet as of March 31, 2007. The operating results related to these products will be included in the Rx Pharmaceuticals segment of the Company's consolidated results of operations beginning in the fourth quarter of fiscal 2007.

The total allocated purchase price for accounting purposes through March 31, 2007 was \$37,538. In addition, the Company has placed \$22,000 in an escrow account pending the resolution of a contingency with respect to a single product. At March 31, 2007, these escrow funds are included in restricted cash. This contingency is required to be resolved within two years of the purchase date. Upon satisfactory resolution of the contingency, the total purchase price would be increased to \$59,538; otherwise, the \$22,000 will be returned to the Company. The \$37,538 allocated purchase price includes the fair value assigned to the Company's license to market and distribute the product during the period until the escrow funds are released. The Company has allocated the current purchase price of \$37,538 as follows:

|                                                         |           |
|---------------------------------------------------------|-----------|
| Intangible assets - developed product technology        | \$ 23,617 |
| Intangible assets - in-process research and development | 8,252     |
| Inventory                                               | 5,669     |
|                                                         | -----     |
| Total assets acquired                                   | \$ 37,538 |
|                                                         | =====     |

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 will be amortized on a straight-line basis. The amount allocated to in-process research and development was charged to operations in the third quarter of fiscal 2007. The valuation of in-process research and development related to projects which were assigned fair values by discounting forecasted cash flows 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 discount rate of 11% 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 as of the acquisition date. Over the next two years, the Company estimates that it will incur additional costs related to efforts necessary to develop the acquired, incomplete technology into commercially viable products that could be as much as or more than \$500. If the Company is unable to develop commercially viable products or obtain approval from the United States Food and Drug Administration (FDA) as required, the Company's future revenues and net income will be adversely impacted.

A step-up in the value of inventory of \$4,573 was recorded in the allocation of the purchase price based on valuation estimates. The total amount allocated to inventory of \$5,669, which includes the step-up amount, will be charged to cost

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of sales as the inventory is sold over the next three to six months, but is not expected to have any impact beyond that period.

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### NOTE C - EARNINGS PER SHARE

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

|                                                     | Third Quarter |          | Year-to-Date |          |
|-----------------------------------------------------|---------------|----------|--------------|----------|
|                                                     | 2007          | 2006     | 2007         | 2006     |
| Numerator:                                          |               |          |              |          |
| Net income used for both basic and diluted EPS      | \$17,056      | \$20,861 | \$55,026     | \$59,138 |
|                                                     | =====         | =====    | =====        | =====    |
| Denominator:                                        |               |          |              |          |
| Weighted average shares outstanding for basic EPS   | 91,643        | 92,683   | 92,161       | 92,966   |
| Dilutive effect of share-based awards               | 1,655         | 1,361    | 1,443        | 1,177    |
|                                                     | -----         | -----    | -----        | -----    |
| Weighted average shares outstanding for diluted EPS | 93,298        | 94,044   | 93,604       | 94,143   |
|                                                     | =====         | =====    | =====        | =====    |

Share-based awards outstanding that are anti-dilutive were 2,679 and 3,291 for the third quarters of fiscal 2007 and 2006, respectively, and 2,762 and 4,584 for year-to-date fiscal 2007 and 2006, respectively. These share-based awards were excluded from the diluted EPS calculation.

### NOTE D - INVENTORIES

Inventories are summarized as follows:

|                 | March 31,<br>2007 | July 1,<br>2006 | March 25,<br>2006 |
|-----------------|-------------------|-----------------|-------------------|
|                 | -----             | -----           | -----             |
| Finished goods  | \$150,187         | \$148,603       | \$145,398         |
| Work in process | 75,499            | 70,974          | 60,084            |
| Raw materials   | 84,586            | 83,364          | 68,186            |
|                 | -----             | -----           | -----             |
|                 | \$310,272         | \$302,941       | \$273,668         |
|                 | =====             | =====           | =====             |

The Company maintains an allowance for estimated obsolete or unmarketable inventory based on the difference between the cost of inventory and its estimated market value. The inventory balances stated above are net of an inventory allowance of \$37,390 at March 31, 2007, \$42,509 at July 1, 2006 and \$43,035 at March 25, 2006.

### NOTE E - GOODWILL

Goodwill allocated to the API and Rx Pharmaceuticals segments is tested for

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impairment annually in the third quarter of the fiscal year. The current year testing resulted in no impairment charge related to these segments. The Company's API business is heavily dependent on new products currently under development. Although not anticipated at this time, the termination of certain key product development projects could have a materially adverse impact on the future results of the API segment, which may include a charge for goodwill impairment. 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.

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There were no acquisitions, dispositions or impairments of goodwill during fiscal 2007. Changes in the carrying amount of goodwill, by reportable segment, are as follows:

|                                 | Consumer<br>Healthcare | Rx Pharma-<br>ceuticals | API       | Total     |
|---------------------------------|------------------------|-------------------------|-----------|-----------|
|                                 | -----                  | -----                   | -----     | -----     |
| Balance as of July 1, 2006      | \$ 44,452              | \$ 61,406               | \$ 46,325 | \$152,183 |
| Goodwill adjustment             | --                     | 14,877                  | 11,326    | 26,203    |
| Currency translation adjustment | 2,230                  | 5,055                   | 3,779     | 11,064    |
|                                 | -----                  | -----                   | -----     | -----     |
| Balance as of March 31, 2007    | \$ 46,682              | \$ 81,338               | \$ 61,430 | \$189,450 |
|                                 | =====                  | =====                   | =====     | =====     |

During the first quarter of fiscal 2007, the Company recorded an adjustment to goodwill for the Rx Pharmaceuticals and API segments. This adjustment was to record a deferred tax liability for income and withholding taxes related to pre-acquisition earnings in an approved enterprise zone in Israel. In accordance with Emerging Issues Task Force 93-7, "Uncertainties Related to Income Taxes in a Purchase Business Combination" (EITF 93-7), the Company treated this item as an uncertain tax position at the time of the acquisition. Until the first quarter of fiscal 2007, the Company was unable to reasonably estimate the liability that was required. Certain factors still remain that could change the ultimate liability and result in subsequent changes in goodwill. Provision has not been made for U.S. or additional foreign taxes on undistributed post-acquisition earnings of foreign subsidiaries because those earnings are considered permanently reinvested in the operations of those subsidiaries.

### NOTE F - INTANGIBLE ASSETS

Intangible assets and related accumulated amortization consist of the following:

|                                            | March 31, 2007 |                             | July 1, 2006 |                             |
|--------------------------------------------|----------------|-----------------------------|--------------|-----------------------------|
|                                            | -----          | -----                       | -----        | -----                       |
|                                            | Gross          | Accumulated<br>Amortization | Gross        | Accumulated<br>Amortization |
|                                            | -----          | -----                       | -----        | -----                       |
| Developed product technology / formulation | \$149,551      | \$ 17,582                   | \$117,615    | \$ 10,656                   |
| Distribution and license agreements        | 19,830         | 5,474                       | 18,755       | 3,765                       |

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|                        |           |           |           |           |
|------------------------|-----------|-----------|-----------|-----------|
| Customer relationships | 4,900     | 3,688     | 4,900     | 2,698     |
| Trademarks             | 9,984     | 1,622     | 9,503     | 1,228     |
|                        | -----     | -----     | -----     | -----     |
| Total                  | \$184,265 | \$ 28,366 | \$150,773 | \$ 18,347 |
|                        | =====     | =====     | =====     | =====     |

The Company recorded a charge for amortization expense of \$9,783 and \$8,856 for year-to-date fiscal 2007 and 2006, respectively, for intangible assets subject to amortization.

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Estimated amortization expense increased significantly from the second quarter of fiscal 2007 due to the intangible assets acquired in the Glades acquisition. The expense below assumes that the related contingency is satisfactorily resolved within the next two years. The estimated amortization expense for each of the following five years is as follows:

| Fiscal Year | Amount   |
|-------------|----------|
| -----       | -----    |
| 2007 (1)    | \$ 3,825 |
| 2008        | 14,700   |
| 2009        | 15,200   |
| 2010        | 13,300   |
| 2011        | 13,300   |

(1) Reflects remaining three months of fiscal 2007.

## NOTE G - OUTSTANDING DEBT

Total borrowings outstanding are summarized as follows:

|                                           | March 31,<br>2007 | July 1,<br>2006 | March 25,<br>2006 |
|-------------------------------------------|-------------------|-----------------|-------------------|
|                                           | -----             | -----           | -----             |
| Short-term debt:                          |                   |                 |                   |
| Swingline loan                            | \$ 3,763          | \$ 19,195       | \$ 19,867         |
| Bank loan - Germany subsidiary            | --                | --              | 5,092             |
| Bank loans - Mexico subsidiary            | --                | 886             | 2,010             |
| Current portion of long-term debt         | 14,910            | --              | --                |
|                                           | -----             | -----           | -----             |
| Total                                     | 18,673            | 20,081          | 26,969            |
|                                           | -----             | -----           | -----             |
| Long-term debt:                           |                   |                 |                   |
| Revolving line of credit                  | 180,000           | 80,000          | 55,000            |
| Term loan                                 | 100,000           | 100,000         | 100,000           |
| Letter of undertaking - Israel subsidiary | 400,000           | 400,000         | 400,000           |
| Debenture - Israel subsidiary             | 29,342            | 41,717          | 39,360            |
|                                           | -----             | -----           | -----             |
| Total                                     | 709,342           | 621,717         | 594,360           |
|                                           | -----             | -----           | -----             |

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|            |           |           |           |
|------------|-----------|-----------|-----------|
| Total debt | \$728,015 | \$641,798 | \$621,329 |
|            | =====     | =====     | =====     |

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 included in the balance sheet as a non-current asset.

## NOTE H - SHAREHOLDERS' EQUITY

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 is retired upon purchase. 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 repurchased 317 shares of its common stock for \$5,372 and 262 shares of its common stock for \$4,087 during the third quarter of fiscal

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2007 and 2006, respectively. Year-to-date, the Company repurchased 1,279 shares of its common stock for \$20,919 and 1,431 shares of its common stock for \$20,488 in fiscal 2007 and 2006, respectively. Year-to-date, private party transactions accounted for 19 shares and 112 shares in fiscal 2007 and 2006, respectively.

## NOTE I - COMPREHENSIVE INCOME

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

|                                                            | Third Quarter |           |       |
|------------------------------------------------------------|---------------|-----------|-------|
|                                                            | 2007          | 2006      |       |
|                                                            | -----         | -----     | ----- |
| Net income                                                 | \$ 17,056     | \$ 20,861 | \$    |
| Other comprehensive income (loss):                         |               |           |       |
| Change in fair value of derivative instruments, net of tax | (422)         | 964       |       |
| Foreign currency translation adjustments                   | 3,022         | 510       |       |
| Change in fair value of investment securities, net of tax  | 378           | (206)     |       |
|                                                            | -----         | -----     | ----- |
| Comprehensive income                                       | \$ 20,034     | \$ 22,129 | \$    |
|                                                            | =====         | =====     | ===== |

## NOTE J - COMMITMENTS AND CONTINGENCIES

The Company is not a party to any litigation, other than routine litigation incidental to its business except for the litigation described below. The Company believes that none of the routine litigation, individually or in the aggregate, will be material to the business of the Company.

In August 2004, the Company reached a settlement with the United States Federal Trade Commission (FTC) and states' attorneys general offices regarding a now terminated agreement between AlphaPharma, Inc. and the Company related to a

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children's ibuprofen suspension product. In connection with the Alpharma, Inc. agreement and the related FTC settlement, the Company has been named as a defendant in three suits, two of which are class actions that have been consolidated with one another (the Direct Purchaser Action), filed on behalf of Company customers (i.e., retailers), and the other consisting of four class action suits (the Indirect Purchaser Action), filed on behalf of indirect Company customers (i.e., consumers), alleging that the plaintiffs overpaid for children's ibuprofen suspension product as a result of the Company's agreement with Alpharma, Inc. On April 24, 2006, the court in the Direct Purchaser Action issued an order and final judgment approving the settlement of this matter with respect to defendants Alpharma, Inc. and the Company. The Company agreed to pay \$3,000 as part of the settlement of the Direct Purchaser Action. Separately, Alpharma, Inc. and the Company entered into a settlement agreement to resolve the Indirect Purchaser Action for a combination of cash and product donations of approximately \$1,000. On December 11, 2006, the court granted final approval of the settlement for the Indirect Purchaser Action. The Company recorded income of \$500 in the second quarter of fiscal 2007 for the reduction of the associated accruals and considers all related issues to be closed.

The Company is defending a few remaining individual lawsuits pending in various state and federal courts involving phenylpropanolamine (PPA), an ingredient used in the manufacture of certain OTC cough/cold and diet products. The Company discontinued using PPA in the U.S. in November 2000 at the request of the FDA. These cases allege that the plaintiff suffered injury, generally some type of stroke, from ingesting PPA-containing products. Many of these suits also name other manufacturers or retailers of

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PPA-containing products. These personal injury suits seek an unspecified amount of compensatory, exemplary and statutory damages. The Company maintains product liability insurance coverage for the claims asserted in these lawsuits. The Company believes that it has meritorious defenses to these lawsuits and intends to vigorously defend them. At this time, the Company cannot determine whether it will be named in additional PPA-related suits, the outcome of existing suits or the effect that PPA-related suits may have on its financial condition or operating results.

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.

The Company's Israeli subsidiary has provided a guaranty to a bank to secure the debt of a 50% owned joint venture for approximately \$470, not to exceed 50% of the joint venture's debt, that is not recorded on the Company's condensed consolidated balance sheets as of March 31, 2007.

### NOTE K - SEGMENT INFORMATION

The Company has three reportable segments, aligned primarily by product: Consumer Healthcare, Rx Pharmaceuticals and API, as well as an Other category. The majority of corporate expenses, which generally represent shared services, are charged to operating segments as part of a corporate allocation. Unallocated expenses are comprised of certain corporate services that are not allocated to

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the segments. These corporate services generally relate to executive management, human resources, finance and information technology. Year-to-date and third quarter fiscal 2007 included a one-time write-off of in-process research and development for \$8,252 related to the assets acquired from Glades Pharmaceuticals, Inc. Year-to-date fiscal 2006 unallocated expenses included one-time integration costs related to the Company's fiscal 2005 acquisition of Agis Industries.

|                         | Consumer<br>Healthcare<br>----- | Rx<br>Pharma-<br>ceuticals<br>----- | API<br>--- | Other<br>----- | Unallocated<br>expenses<br>----- |
|-------------------------|---------------------------------|-------------------------------------|------------|----------------|----------------------------------|
| Third Quarter 2007      |                                 |                                     |            |                |                                  |
| Net sales               | \$ 262,277                      | \$ 34,025                           | \$ 30,095  | \$ 35,891      | --                               |
| Operating income (loss) | \$ 21,578                       | \$ 7,448                            | \$ 4,002   | \$ 1,105       | \$ (10,602)                      |
| Third Quarter 2006      |                                 |                                     |            |                |                                  |
| Net sales               | \$ 238,594                      | \$ 30,237                           | \$ 30,250  | \$ 33,240      | --                               |
| Operating income (loss) | \$ 20,434                       | \$ 4,260                            | \$ 7,969   | \$ 747         | \$ (3,055)                       |
| Year-to-Date 2007       |                                 |                                     |            |                |                                  |
| Net sales               | \$ 780,033                      | \$ 93,710                           | \$ 88,507  | \$ 110,882     | --                               |
| Operating income (loss) | \$ 56,098                       | \$ 16,921                           | \$ 14,589  | \$ 6,745       | \$ (18,723)                      |
| Year-to-Date 2006       |                                 |                                     |            |                |                                  |
| Net sales               | \$ 735,916                      | \$ 87,976                           | \$ 83,904  | \$ 103,956     | --                               |
| Operating income (loss) | \$ 65,196                       | \$ 13,396                           | \$ 21,100  | \$ 877         | \$ (10,176)                      |

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### NOTE L - RESTRUCTURING

In the fourth quarter of fiscal 2006, as a result of an ongoing review of its Consumer Healthcare operating strategies, the Company's Board of Directors approved plans to exit two unprofitable product lines, effervescent tablets and psyllium-based laxatives. This action resulted in the sale of one Michigan plant and the closure of an additional Michigan plant, both in the second quarter of fiscal 2007. The Company recorded a gain of \$1,276 in the second quarter of fiscal 2007 based on the cash proceeds from the sale of the plant. The gain is included in the restructuring line of the income statement. The Company also recorded a \$1,500 note receivable from the buyer of the plant. This amount, reflecting further gain on the sale of the plant, has been deferred and will be recognized as the note is repaid over the next five years. In addition, the Company incurred a charge of \$2,224 in the first three quarters of fiscal 2007 for employee-related and plant shutdown costs. The employee-related charge was \$1,578 for termination benefits for 72 employees. Unpaid termination benefits of \$168 as of March 31, 2007 are expected to be paid over the next three months.

#### Fiscal 2006 Restructuring Employee Termination -----

Balance at December 30, 2006

\$ 657

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|                           |        |
|---------------------------|--------|
| Additions                 | 427    |
| Payments                  | (916)  |
|                           | -----  |
| Balance at March 31, 2007 | \$ 168 |
|                           | =====  |

In connection with the Agis acquisition in fiscal 2005, the Company accrued \$3,933 of restructuring costs, consisting of employee termination benefits for 60 employees and certain lease termination costs. The Company made payments to employees of \$497 in the first three quarters of fiscal 2007 and recorded a final adjustment to the accrual in the third quarter of fiscal 2007 as no further termination benefits will be paid related to this restructuring. The activity related to these restructuring costs is as follows:

|                           | Fiscal 2005 Restructuring |                   |
|---------------------------|---------------------------|-------------------|
|                           | Employee Termination      | Lease Termination |
|                           | -----                     | -----             |
| Balance at July 1, 2006   | \$ 871                    | \$ 1,098          |
| Adjustment                | (374)                     | --                |
| Payments                  | (497)                     | (97)              |
|                           | -----                     | -----             |
| Balance at March 31, 2007 | \$ --                     | \$ 1,001          |
|                           | =====                     | =====             |

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS THIRD QUARTER FISCAL YEARS 2007 AND 2006 (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. The Consumer Healthcare segment includes the U.S., U.K. and Mexico operations supporting the sale of OTC pharmaceutical and nutritional products worldwide. The Rx Pharmaceuticals segment supports the development and sale of prescription drug products. The API segment supports the development and manufacturing of API products in Israel and Germany, with sales to customers worldwide. The Other category consists of two operating segments, Israel Consumer Products and Israel Pharmaceutical and Diagnostic Products, with sales primarily to the Israeli market, including cosmetics, toiletries, detergents, manufactured and imported pharmaceutical products and medical diagnostic products. Neither of these operating segments meets the quantitative thresholds required to be separately reportable segments.

**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 three quarters of fiscal 2007 are not necessarily indicative of the results that may be expected for a full year.

**Acquisitions** - On March 7, 2007, the Company announced that it entered into a purchase agreement to acquire Qualis, Inc., a privately-owned manufacturer of store brand pediculicide products, for \$12,000. The assets to be acquired in



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this transaction consist of the intangible assets attributable to the products acquired, which include primarily store brand over-the-counter product formulations that compare to Rid(R) and Nix(R). The transaction is expected to close on or around June 30, 2007.

On March 26, 2007, the Company acquired certain generic prescription dermatological products from Glades Pharmaceuticals, Inc. (Glades) for approximately \$57,000 in cash plus \$2,500 of consideration for future research and development collaborations. These assets are included in the accompanying consolidated balance sheet as of March 31, 2007. The operating results related to these products will be included in the Company's consolidated results of operations beginning in the fourth quarter of fiscal 2007.

Current Year Results - Net sales for the third quarter of fiscal 2007 were \$362,288, an increase of 9% over fiscal 2006. The increase was driven primarily by the Consumer Healthcare segment. Consolidated new product sales for the third quarter of fiscal 2007 were approximately \$19,000. Gross profit was \$100,209, an increase of 3% over fiscal 2006. The gross profit percentage in the third quarter of fiscal 2007 was 27.7%, down from 29.3% in last year's third quarter. Operating expenses in the third quarter of fiscal 2007 were \$76,678, an increase of 15% over fiscal 2006. Operating expenses as a percent of net sales were 21.2%, up from 20.1% in the third quarter of fiscal 2006. Net income was \$17,056, a decrease of 18% from fiscal 2006. The third quarter of fiscal 2007 was negatively impacted by the in-process research and development charge related to the Glades acquisition, the effect of which was partially offset by the favorable effective tax rate.

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Year-to-date net sales for fiscal 2007 were \$1,073,132, an increase of 6% over fiscal 2006. The increase spanned all of the Company's segments and included new product sales of approximately \$53,000. Gross profit was \$293,151, an increase of 1% over fiscal 2006. The year-to-date gross profit percentage in fiscal 2007 was 27.3%, down from 28.6% last year. Operating expenses were \$217,521, an increase of 9% over fiscal 2006 and up slightly as a percent of net sales over fiscal 2006. Net income was \$55,026, a decrease of 7% from fiscal 2006. Year-to-date fiscal 2007 was negatively impacted by the acetaminophen product recall and the in-process research and development charge related to the Glades acquisition, the effects of which were partially offset by the favorable effective tax rate.

Further details related to current year results are included in the following Results of Operations.

Product Recall - On November 9, 2006, the Company initiated a voluntary retail-level recall of certain lots of its acetaminophen 500 mg caplets containing raw material purchased from a third party supplier. The Company's quality control systems noted trace amounts of metal particulate in a very small number of these caplet products. The probability of health risk is extremely remote. Following the announcement of the recall, the Company received numerous consumer inquiries, and in order to properly address these inquiries, voluntarily initiated a consumer level return program in addition to the retail returns process. The total cost of the recall is estimated to be approximately \$6,300 and has been recorded in the first three quarters of fiscal 2007. The charge included sales returns and refunds, handling of on-hand inventories, disposal of inventory and management of consumer inquiries. The total charge recorded in the third quarter of fiscal 2007 was approximately \$300. This product recall related to the Consumer Healthcare segment. While the Company believes its estimate of the total cost of the recall is reasonable, the Company cannot predict whether this recall will have any further impact on its results of operations.

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Pseudoephedrine - The Company continued to be impacted by the legislative and market concerns related to products containing pseudoephedrine, which have resulted from concerns over the use of pseudoephedrine in the production of methamphetamine, an illegal drug. Net sales of these products in the first three quarters of fiscal 2007 were approximately \$61,000 lower than the corresponding quarters of fiscal 2006. Net sales of pseudoephedrine products are expected to be approximately \$30,000 for fiscal 2007, excluding expected sales of pseudoephedrine replacement products.

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### RESULTS OF OPERATIONS

#### CONSUMER HEALTHCARE

|                      | Third Quarter |           | Year-to-Date |           |
|----------------------|---------------|-----------|--------------|-----------|
|                      | 2007          | 2006      | 2007         | 2006      |
| Net sales            | \$262,277     | \$238,594 | \$780,033    | \$735,916 |
| Gross profit         | \$ 59,233     | \$ 60,166 | \$174,780    | \$182,539 |
| Gross profit %       | 22.6%         | 25.2%     | 22.4%        | 24.8%     |
| Operating expenses   | \$ 37,655     | \$ 39,732 | \$118,682    | \$117,343 |
| Operating expenses % | 14.4%         | 16.6%     | 15.2%        | 15.9%     |
| Operating income     | \$ 21,578     | \$ 20,434 | \$ 56,098    | \$ 65,196 |
| Operating income %   | 8.2%          | 8.6%      | 7.2%         | 8.9%      |

#### Net Sales

Third quarter net sales for fiscal 2007 increased 10% or \$23,683 compared to fiscal 2006. The increase was comprised of \$8,800 of international sales and \$14,900 of domestic sales. The increase in international sales resulted from higher unit sales of existing products as well as \$2,500 from favorable foreign currency exchange. The domestic increases were driven by \$16,700 of new product sales in the smoking cessation, gastrointestinal and nutrition categories along with an \$11,000 increase in higher unit sales of existing products in the analgesics and cough/cold categories compared to the third quarter of fiscal 2006. The domestic increases were partly offset by a \$1,100 decrease in the combination of pseudoephedrine and phenylephrine-containing products along with lower unit sales of existing products in the smoking cessation, gastrointestinal and nutrition product categories of \$12,000.

Year-to-date net sales for fiscal 2007 increased 6% or \$44,117 compared to fiscal 2006. The increase was comprised of \$21,600 of international sales and \$22,500 of domestic sales. The increase in international sales resulted from higher unit sales of existing products as well as \$4,600 from favorable foreign currency exchange. The domestic increase resulted from \$44,400 of new product sales in the smoking cessation, gastrointestinal and nutrition categories along with a \$17,000 increase from higher unit sales of existing products in the analgesics and cough/cold categories. These combined domestic increases were partially offset by an \$18,000 decrease in lower unit sales of existing products in the gastrointestinal and nutrition product categories along with sales

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declines from the combination of pseudoephedrine and phenylephrine-containing products of \$19,600 in fiscal 2007 compared to fiscal 2006.

The Company continued to be impacted by the legislative and market changes related to products containing pseudoephedrine, which have resulted from concerns over the use of pseudoephedrine in the production of methamphetamine, an illegal drug. Net sales of these products in the first three quarters of fiscal 2007 were approximately \$61,000 lower than the corresponding quarters of fiscal 2006. Net sales of pseudoephedrine products are expected to be approximately \$30,000 for fiscal 2007, excluding expected sales of pseudoephedrine replacement products.

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### Gross Profit

Third quarter gross profit for fiscal 2007 decreased 2% or \$933 compared to fiscal 2006. The decrease was primarily due to higher costs for production and quality assurance and the unfavorable margin impact from lower unit sales of pseudoephedrine-containing products. These decreases were partly offset by the gross profit on increased sales volume attributed to new products and international sales.

Year-to-date gross profit for fiscal 2007 decreased 4% or \$7,759 compared to fiscal 2006. The decrease was primarily due to higher costs for production and quality assurance, the unfavorable margin impact from lower unit sales of pseudoephedrine-containing products and the acetaminophen product recall (described below). These decreases were partly offset by the gross profit on increased sales volume attributed to new products and international sales.

On November 9, 2006, the Company initiated a voluntary retail-level recall of certain lots of its acetaminophen 500 mg caplets containing raw material purchased from a third party supplier. The Company's quality control systems noted trace amounts of metal particulate in a very small number of these caplet products. The probability of health risk is extremely remote. Following the announcement of the recall, the Company received numerous consumer inquiries, and in order to properly address these inquiries, voluntarily initiated a consumer level return program in addition to the retail returns process. The total cost of the recall is estimated to be approximately \$6,300 and was recorded in the first three quarters of fiscal 2007. The charge included sales returns and refunds, handling of on-hand inventories, disposal of inventory and management of consumer inquiries. While the Company believes its estimate of the total cost of the recall is reasonable, the Company cannot predict whether this recall will have any further impact on its results of operations.

### Operating Expenses

Third quarter operating expenses for fiscal 2007 decreased 5% or \$2,077 compared to fiscal 2006. The decreases were primarily due to lower employee-related costs and a reduction in bad debt expense, which were partially offset by an increase in research and development costs. Year-to-date operating expenses for fiscal 2007 increased 1% or \$1,339 compared to fiscal 2006. The increases were primarily due to higher research and development, relocation and recruiting costs, as well as a restructuring charge, which were partially offset by a reduction in bad debt expense and employee-related costs.

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RX PHARMACEUTICALS

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|                      | Third Quarter |          | Year-to-Date |          |
|----------------------|---------------|----------|--------------|----------|
|                      | 2007          | 2006     | 2007         | 2006     |
| Net sales            | \$34,025      | \$30,237 | \$93,710     | \$87,976 |
| Gross profit         | \$16,131      | \$11,544 | \$41,305     | \$34,761 |
| Gross profit %       | 47.4%         | 38.2%    | 44.1%        | 39.5%    |
| Operating expenses   | \$ 8,683      | \$ 7,284 | \$24,384     | \$21,365 |
| Operating expenses % | 25.5%         | 24.1%    | 26.0%        | 24.3%    |
| Operating income     | \$ 7,448      | \$ 4,260 | \$16,921     | \$13,396 |
| Operating income %   | 21.9%         | 14.1%    | 18.1%        | 15.2%    |

### Net Sales

Third quarter net sales for fiscal 2007 increased 13% or \$3,788 compared to fiscal 2006. This increase was primarily due to an increase in service and royalty revenues, partially offset by price erosion.

Year-to-date net sales for fiscal 2007 increased 7% or \$5,734 compared to fiscal 2006. This increase was primarily due to an increase in service and royalty revenues of approximately \$15,500 and new product sales of approximately \$5,900, partially offset by pricing pressure on current products sold under Abbreviated New Drug Applications (ANDA) and an increase in expense for customer-related programs of \$5,000. Fiscal 2006 was unfavorably impacted by a mesalamine product recall (described below) that decreased sales \$1,350.

Fiscal 2007 results include an increase in expense related to the Company's customer programs in the Rx Pharmaceuticals segment as noted above. Customer programs are common in the industry and include such items as rebates and chargebacks. The determination of the liability for these programs involves a significant amount of estimation. The Company has a methodology by which it accrues and validates its accrual of these expenses. This methodology includes several variables: inventory reports supplied by wholesalers that indicate inventory levels, detailed computations using historical payments and estimates of sell-through to retailers with varying contract prices. The Company has been monitoring its methodology and made material changes to certain of these estimates in the second quarter of fiscal 2007. The changes to the estimates are intended to further enhance the accuracy and reliability of the calculation of the liability and to reduce the risk of incremental charges for customer programs.

### Gross Profit

Third quarter gross profit for fiscal 2007 increased 40% or \$4,587 compared to fiscal 2006, primarily due to an increase in service and royalty revenues.

Year-to-date gross profit for fiscal 2007 increased 19% or \$6,544 compared to fiscal 2006. The increase was due primarily to the increase in service and royalty revenues and the absence of the mesalamine product recall, partially offset by pricing pressure on current ANDA products and the increase in expense for customer programs.

In the first quarter of fiscal 2006, the Company initiated a voluntary retail-level recall of all affected lots of

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mesalamine rectal suspension, an anti-inflammatory agent used to treat mild to moderate ulcerative colitis, following reports of leakage related to the bottle closure cap. The recall was not safety related and there have been no reports of injury or illness related to the leakage of this product. The costs to write off the value of the Company's on-hand inventories and the costs of return and disposal, estimated to be \$2,750, were recorded in the first quarter of fiscal 2006. No further expense is expected to be incurred related to this recall.

## Operating Expenses

Third quarter operating expenses for fiscal 2007 increased 19% or \$1,399 compared to fiscal 2006. Year-to-date operating expenses for fiscal 2007 increased 14% or \$3,019 compared to fiscal 2006. The increase in both periods was primarily due to higher spending for research and development.

## API

|                      | Third Quarter |          | Year-to-Date |          |
|----------------------|---------------|----------|--------------|----------|
|                      | 2007          | 2006     | 2007         | 2006     |
| Net sales            | \$30,095      | \$30,250 | \$88,507     | \$83,904 |
| Gross profit         | \$12,499      | \$14,310 | \$38,463     | \$39,111 |
| Gross profit %       | 41.5%         | 47.3%    | 43.5%        | 46.6%    |
| Operating expenses   | \$ 8,497      | \$ 6,341 | \$23,874     | \$18,011 |
| Operating expenses % | 28.2%         | 21.0%    | 27.0%        | 21.5%    |
| Operating income     | \$ 4,002      | \$ 7,969 | \$14,589     | \$21,100 |
| Operating income %   | 13.3%         | 26.3%    | 16.5%        | 25.1%    |

## Net Sales

Third quarter net sales for fiscal 2007 were essentially flat compared to fiscal 2006. Fiscal 2006 included a one-time sale of intellectual property assets for \$4,000. This reduction in revenue, however, was offset by an increase in sales of new products as well as sales of existing products in the North American and Japanese markets.

Year-to-date net sales for fiscal 2007 increased 5% or \$4,603 compared to fiscal 2006. This increase was due to sales of new products of approximately \$2,300 as well as an increase of approximately \$10,400 related to customer and product mix changes, partially offset by the absence in fiscal 2007 of the \$4,000 sale of intellectual property. The net sales of API are highly dependent on the level of competition in the marketplace for a specific material. The current trend of increased sales may not continue due to this dependency.

## Gross Profit

Third quarter gross profit for fiscal 2007 decreased 13% or \$1,811 compared to fiscal 2006. This decrease was primarily due to the absence of the sale of intellectual property, but was partially offset by the increased volume attributable to new products and a change in customer and product mix.

Year-to-date gross profit for fiscal 2007 decreased 2% or \$648 compared to

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fiscal 2006. The year-to-

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date gross profit for fiscal 2006 included approximately \$4,000 in revenue related to the sale of intellectual property as well as a charge of \$1,747 for the write-off of the step-up in the value of inventory resulting from the Agis acquisition. The net decrease from the absence of this fiscal 2006 activity was mostly offset by the gross profit on increased volume attributable to new products and changes in customer and product sales mix.

### Operating Expenses

Third quarter operating expenses for fiscal 2007 increased 34% or \$2,156 compared to fiscal 2006. Year-to-date operating expenses for fiscal 2007 increased 33% or \$5,863 compared to fiscal 2006. The increase in both periods was primarily due to increased spending for research and development and higher commissions on sales of certain products.

### OTHER

The Other category includes two operating segments: Israel Consumer Products and Israel Pharmaceutical and Diagnostic Products. Neither of these operating segments individually meets the quantitative thresholds required to be a reportable segment.

|                      | Third Quarter |           | Year-to-Date |           |
|----------------------|---------------|-----------|--------------|-----------|
|                      | 2007          | 2006      | 2007         | 2006      |
| Net sales            | \$ 35,891     | \$ 33,240 | \$110,882    | \$103,956 |
| Gross profit         | \$ 12,346     | \$ 11,258 | \$ 38,603    | \$ 33,353 |
| Gross profit %       | 34.4%         | 33.9%     | 34.8%        | 32.1%     |
| Operating expenses   | \$ 11,241     | \$ 10,511 | \$ 31,858    | \$ 32,476 |
| Operating expenses % | 31.3%         | 31.7%     | 28.7%        | 31.3%     |
| Operating income     | \$ 1,105      | \$ 747    | \$ 6,745     | \$ 877    |
| Operating income %   | 3.1%          | 2.2%      | 6.1%         | 0.8%      |

Third quarter net sales for fiscal 2007 increased 8% or \$2,651 compared to fiscal 2006. The increase was primarily due to changes in the Israeli shekel to U.S. dollar foreign exchange rate, partially offset by changes in customer and product mix. Third quarter gross profit for fiscal 2007 increased 10% or \$1,088 compared to fiscal 2006, primarily due to changes in the foreign exchange rate.

Year-to-date net sales for fiscal 2007 increased 7% or \$6,926 compared to fiscal 2006, primarily due to changes in the foreign exchange rate and changes in customer and product mix. Year-to-date gross profit for fiscal 2007 increased 16% or \$5,250 compared to fiscal 2006. The year-to-date gross profit for fiscal 2006 included a charge of \$2,697 for the write-off of the step-up in the value of inventory resulting from the Agis acquisition. The remainder of the gross profit increase was primarily due to changes in the foreign exchange rate.

Third quarter operating expenses for fiscal 2007 increased 7% or \$730 compared to fiscal 2006 primarily due to an increase in sales commissions and

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administrative expenses. Year-to-date operating expenses for fiscal 2007 decreased 2% or \$618 compared to fiscal 2006 primarily due to lower administrative expenses, partially offset by an increase in sales commissions.

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### UNALLOCATED EXPENSES

|                         | Third Quarter |            | Year-to-Date |            |
|-------------------------|---------------|------------|--------------|------------|
|                         | 2007          | 2006       | 2007         | 2006       |
| Operating expenses      | \$ 10,602     | \$ 3,055   | \$ 18,723    | \$ 10,176  |
| Operating income (loss) | \$(10,602)    | \$ (3,055) | \$(18,723)   | \$(10,176) |

Unallocated expenses were comprised of certain corporate services that were not allocated to the segments. These corporate services generally related to executive management, human resources, finance and information technology. Unallocated expenses for the third quarter increased \$7,547 in fiscal 2007 compared to fiscal 2006 primarily due to the in-process research and development charge related to the Glades acquisition. Year-to-date unallocated expenses increased \$8,547 compared to fiscal 2006 primarily due to the in-process research and development charge related to the Glades acquisition and higher wages and benefits. Year-to-date fiscal 2006 included acquisition integration costs related to Agis of \$2,600.

### INTEREST AND OTHER (CONSOLIDATED)

Interest expense for the third quarter was \$8,884 for fiscal 2007 and \$7,884 for fiscal 2006. Interest income for the third quarter was \$5,234 for fiscal 2007 and \$5,419 for fiscal 2006. Other income was \$1,874 for the third quarter of fiscal 2007 compared to \$2,310 for the third quarter of fiscal 2006.

Year-to-date interest expense was \$26,655 for fiscal 2007 and \$27,476 for fiscal 2006. Year-to-date interest income was \$15,119 for fiscal 2007 and \$15,870 for fiscal 2006. Year-to-date other income was \$4,193 and \$9,346 for fiscal 2007 and 2006, respectively. Other income for fiscal 2006 included a gain of \$4,666 from the sale of an equity investment.

### INCOME TAXES (CONSOLIDATED)

The third quarter effective tax rate was 21.6% for fiscal 2007 and 30.9% for fiscal 2006. Year-to-date the effective tax rate was 19.4% for fiscal 2007 and 32.9% for fiscal 2006. The Company's international expansion has changed the relative composition of U.S. and foreign income resulting in a lower effective tax rate than the Company had historically experienced. This tax rate will fluctuate from quarter to quarter depending on the composition of income before tax. Eighty percent of income before tax in the first three quarters of fiscal 2007 was contributed by foreign entities with a tax rate lower than the U.S. statutory rate. The Company estimates the annualized effective tax rate for fiscal 2007 will be between 20% and 23%.

The effective tax rate for fiscal 2007 included the impact of the newly enacted Tax Relief and Healthcare Act of 2006 (the Act). Among other provisions, the Act provides for the restoration of the research and development tax credit, applied retroactively to January 1, 2006. Accordingly, tax expense in the second quarter

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of fiscal 2007 was reduced approximately \$1,300 to reflect the one-time impact of the retroactive application of the Act.

### FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents and investment securities increased \$57,240 to \$93,093 at March 31, 2007 from \$35,853 at March 25, 2006. Working capital, including cash, increased \$128,324 to \$373,415 at March

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31, 2007 from \$245,091 at March 25, 2006. The increase in working capital was due primarily to an increase in cash and investment securities, higher inventory levels and accounts receivable associated with higher sales volume.

Year-to-date net cash provided from operating activities decreased by \$36,471 to \$74,161 for fiscal 2007 compared to \$110,632 for fiscal 2006. The decreased cash from operations was primarily due to the change in inventory and accounts payable related to a strategic build-up of inventories that occurred earlier in the fiscal year, fiscal 2006 employee bonuses that were paid in fiscal 2007 and increased sales volume, partially offset by lower payments for income taxes.

Year-to-date net cash used for investing activities increased \$108,447 to \$116,869 for fiscal 2007 compared to \$8,422 for fiscal 2006 primarily due to higher capital expenditures, the Glades asset acquisition and a net increase in the purchase of investment securities.

Year-to-date capital expenditures for facilities and equipment were for normal replacement and productivity enhancements. Capital expenditures are anticipated to be \$40,000 to \$45,000 for fiscal 2007. The annual capital expenditures for fiscal 2006 were \$36,000.

Year-to-date net cash provided from financing activities increased \$141,968 to \$55,824 for fiscal 2007 compared to cash used for financing activities of \$86,144 for fiscal 2006. The increased cash from financing activities was primarily due to increased net borrowings of long-term debt to fund the Glades asset acquisition and the Company's working capital requirements.

The Company repurchased 317 shares of its common stock for \$5,372 and 262 shares for \$4,087 during the third quarter of fiscal 2007 and 2006, respectively. Year-to-date, the Company repurchased 1,279 shares of its common stock for \$20,919 and 1,431 shares for \$20,488 in fiscal 2007 and 2006, respectively. Private party transactions accounted for 1 share in each of the third quarters of fiscal 2007 and 2006. Year-to-date, private party transactions accounted for 19 shares and 112 shares in fiscal 2007 and 2006, respectively.

The Company paid quarterly dividends totaling \$12,281 and \$11,660, or \$0.1325 and \$0.125 per share, for the first three quarters of fiscal 2007 and 2006, 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.

### GUARANTIES AND CONTRACTUAL OBLIGATIONS

The Company's Israeli subsidiary has provided a guaranty to a bank to secure the debt of a 50% owned joint venture for approximately \$470, not to exceed 50% of the joint venture's debt, that is not recorded on the Company's condensed consolidated balance sheets as of March 31, 2007.

During the third quarter of fiscal 2007, there were no material changes in



contractual obligations.

#### CRITICAL ACCOUNTING POLICIES

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,

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actual results could differ from the estimates. The accounting policies, discussed below, are considered by management to require the most judgment and are critical in the preparation of the financial statements. Other significant accounting policies are included in Note A of the notes to the consolidated financial statements in the Company's annual report on Form 10-K for the fiscal year ended July 1, 2006.

Revenue Recognition and Customer Programs - 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.

A chargeback relates to an agreement the Company has with a wholesaler, a retail customer that will ultimately purchase product from a wholesaler or a pharmaceutical buying group 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 calculation of the accrual for chargebacks includes several variables: inventory reports supplied by wholesalers that indicate inventory levels, detailed computations using historical payments and estimates of sell-through to retailers with varying contract prices.

Rebates are payments issued to the customer when certain criteria are met which may include 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.

The Company has a methodology by which it accrues and validates its accrual of these liabilities. The Company has been monitoring its methodology and made material changes to certain of the estimates in the second quarter of fiscal 2007 that resulted in additional accruals. The changes to the estimates are intended to further enhance the accuracy and reliability of the calculation of the liability and to reduce the risk of incremental charges for customer programs. However, future changes in the estimates and assumptions related to

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these programs may result in additional accruals.

The following table summarizes the activity included in the balance sheet for accounts receivable

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allowances and customer program accruals:

|                              | Year-to-Date |           |
|------------------------------|--------------|-----------|
|                              | 2007         | 2006      |
| Balance, beginning of period | \$ 54,456    | \$ 48,378 |
| Provision recorded           | 144,487      | 110,212   |
| Credits processed            | (156,042)    | (107,253) |
| Balance, end of the period   | \$ 42,901    | \$ 51,337 |

Allowance for Doubtful Accounts - The Company maintains an allowance for customer accounts that reduces receivables to amounts that are expected to be collected. In estimating the allowance, management considers factors such as current overall economic conditions, industry-specific economic conditions, 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 \$9,933 at March 31, 2007, \$11,178 at July 1, 2006, and \$10,619 at March 25, 2006.

Inventory - The Company maintains an allowance for estimated obsolete or unmarketable inventory based on the difference between the cost of the inventory and its estimated market value. In estimating the allowance, 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 allowances. The allowance for inventory was \$37,390 at March 31, 2007, \$42,509 at July 1, 2006 and \$43,035 at March 25, 2006.

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 API business is heavily dependent on new products currently under development. Although not anticipated at this time, the termination of certain key product development projects could have a materially adverse impact on the future results of the API segment, which may include a charge for goodwill impairment. Goodwill was \$189,450 at March 31, 2007, \$152,183 at July 1, 2006 and \$147,633 at March 25, 2006.

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Other Intangible Assets - Other intangible assets subject to amortization consist of developed product

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technology, distribution and license agreements, customer relationships and trademarks. Most of these assets are related to the Agis acquisition and are amortized over their estimated useful economic lives using the straight-line method. An accelerated method of amortization is used for customer relationships. For intangible assets subject to amortization, an impairment analysis is performed whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. 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 were \$155,899 at March 31, 2007, \$132,426 at July 1, 2006 and \$138,043 at March 25, 2006.

Product Liability and Workers' Compensation - The Company maintains accruals to provide for claims incurred that are related to product liability and workers' compensation. In estimating these accruals, management considers actuarial valuations of exposure based on loss experience. These actuarial valuations include significant estimates and assumptions, which include, but are not limited to, loss development, interest rates, product sales, litigation costs, accident severity and payroll expenses. Changes in these estimates and assumptions may result in additional accruals. The accrual for product liability claims was \$2,435 at March 31, 2007, \$1,937 at July 1, 2006 and \$1,825 at March 25, 2006. The accrual for workers' compensation claims was \$1,836 at March 31, 2007, \$1,919 at July 1, 2006 and \$2,968 at March 25, 2006.

### Item 3. Quantitative and Qualitative Disclosures About Market Risks

The Company is exposed to market risks due to changes in currency exchange rates and interest rates.

The Company is exposed to interest rate changes primarily as a result of interest expense on borrowings used to finance the Agis acquisition and working capital requirements and interest income earned on its investment of cash on hand. As of March 31, 2007, the Company had invested cash, cash equivalents and investment securities of \$93,093 and short and long-term debt, net of restricted cash, of \$306,015.

The Company enters into certain derivative financial instruments, when available on a cost-effective basis, to hedge its underlying economic exposure, particularly related to the management of interest rate risk. Because of the use of certain derivative financial instruments, the Company believes that a significant 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.

The Company has operations in the U.K., Israel, Germany and Mexico. These operations transact business in their local currency and foreign currencies, thereby creating exposures to changes in exchange rates. From time to time, the Company enters into currency derivative instruments to hedge its underlying exposure to currency fluctuations. Significant currency fluctuations could adversely impact foreign revenues; however, the Company cannot predict future changes in foreign currency exposure.

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### Item 4. Controls and Procedures

As of March 31, 2007, the Company's management, including its Chief Executive Officer and its Chief Financial Officer, has performed an interim review on 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, as well as an evaluation and consideration of the update described below, 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.

Following is an update of the remediation plan related to the Company's fiscal 2005 Agis acquisition which should be read in conjunction with Item 9A. Controls and Procedures included in the Company's Form 10-K for the fiscal year ended July 1, 2006.

- The Company implemented a new enterprise resource planning (ERP) system at its Israeli location in the second quarter of fiscal 2007 which is intended to remediate the majority of the previously disclosed weaknesses. The Israeli location is fully functioning on this new system and the Company is in the process of evaluating internal controls.

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 (ICFR) pursuant to Rule 13a-15(d) of the Securities Exchange Act of 1934, no changes during the quarter ended March 31, 2007 were identified that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

There were no material changes to Legal Proceedings in the current quarter.

#### Item 1A. Risk Factors

The Company's Annual Report on Form 10-K filed for the year ended July 1, 2006 included 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 2007.

Regulatory Environment -- Several U.S. and foreign agencies regulate the manufacturing, processing, formulation, packaging, labeling, testing, storing, distribution, advertising and sale of the Company's products. Various state and local agencies also regulate these activities. In addition, the Company manufactures and markets certain of its products in accordance with the guidelines established by voluntary standard organizations. Should the Company or one of its third party service providers used in the development or commercialization of product fail to adequately conform to these regulations and guidelines, there may be a significant adverse impact on the operating results of the Company. In particular, packaging or labeling changes mandated by the FDA can have a material adverse impact on the results of operations of the Company. Required changes could be related to safety or effectiveness issues. There is

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also the risk that the FDA could require the Company to audit or repeat prior bioequivalence or clinical studies or the FDA could change or withdraw the approval governing such products, which could have a material adverse impact on the results of the Company's operations. The Company believes that it has a good relationship with the FDA, which it intends to maintain. If these relationships should deteriorate, however, the Company's ability to bring new and current products to market could be impeded. For further information, please see Item 1. Business -- Government Regulation of the Company's Form 10-K for the year ended July 1, 2006.

MDS Pharma Services -- MDS Pharma Services (MDS) is a contract research organization that performs studies related to the bioequivalency of drugs. The Company has engaged MDS in the past to perform these types of studies as part of the approval process for certain drugs. Recently, the FDA notified the Company and many other pharmaceutical companies about some concerns over the reliability of studies conducted between 2000 and 2004. The FDA has requested that the affected companies validate, confirm or repeat certain bioequivalence studies. At this time, it is unknown whether the costs associated with confirming or repeating these studies will be reimbursed by MDS. The FDA has given no indication that it considers the affected products to be other than safe and effective. Because the outcome of the issue is uncertain, the Company cannot predict whether this issue will have a material impact on its results of operations.

Pseudoephedrine-related Legal Matters -- The Company has been informed that Independence County, Arkansas, has filed a lawsuit in Arkansas against various manufacturers and distributors of products containing pseudoephedrine, which is used to produce methamphetamine, an illegal drug. The Company has been informed that other counties in Arkansas may join in the lawsuit as plaintiffs. Through this lawsuit, Independence County, Arkansas reportedly seeks to recoup as damages some of the expenses it has incurred to combat methamphetamine use and addiction. The county also reportedly seeks punitive damages, disgorgement of profits and attorneys fees. Although the Company believes that it has been named as one of the defendants in that suit, it has not yet been served with any such lawsuit. The Company believes that any such lawsuit is without merit and, if served with the lawsuit, intends to vigorously defend against it. At this early stage, the Company cannot predict whether this issue will have a material impact on its results of operations.

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

On February 15, 2006, the Board of Directors approved a plan to repurchase shares of common stock with a value of up to \$60,000. This plan expired on February 17, 2007. On February 8, 2007, the Board of Directors approved an additional plan to repurchase shares of common stock with a value of up to \$60,000. This plan will expire on February 9, 2009. 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. All common stock repurchased is retired upon purchase.

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The table below lists the Company's repurchases of shares of common stock during its most recently completed quarter:

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| Fiscal 2007               | Total<br>Number of<br>Shares<br>Purchased (1) | Average<br>Price<br>Paid per<br>Share | Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced Plans | Value of<br>Shares<br>Available for<br>Purchase |
|---------------------------|-----------------------------------------------|---------------------------------------|-------------------------------------------------------------------------------|-------------------------------------------------|
|                           |                                               |                                       |                                                                               |                                                 |
|                           |                                               |                                       |                                                                               | \$38,778                                        |
| December 31 to February 3 | 108                                           | \$17.26                               | 108                                                                           | \$36,918                                        |
| February 4 to March 3     | 75                                            | \$17.14                               | 75                                                                            | \$59,359                                        |
| March 4 to March 31       | 134                                           | \$16.55                               | 133                                                                           | \$57,160                                        |
|                           | ---                                           |                                       | ---                                                                           |                                                 |
| Total                     | 317                                           |                                       | 316                                                                           |                                                 |

(1) Private party transactions accounted for the purchase of 1 share in the period from March 4 to March 31.

## Item 6. Exhibits

| Exhibit<br>Number | Description                                                                                                                                                                                                                                             |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                   |                                                                                                                                                                                                                                                         |
| 10(a)             | Registrant's 2003 Long-Term Incentive Plan, as amended as of February 7, 2007.                                                                                                                                                                          |
| 10(b)             | Letter Agreement by and between Perrigo Company and Ben-Zion Zilberfarb, dated February 8, 2007 and effective February 16, 2007, incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 22, 2007. |
| 10(c)             | Form of Restricted Stock Agreement (Under the Perrigo Company 2003 Long-Term Incentive Plan).                                                                                                                                                           |
| 10(d)             | Form of Long-Term Incentive Award Agreement (Under the Perrigo Company 2003 Long-Term Incentive Plan).                                                                                                                                                  |
| 10(e)             | Form of Restricted Stock Agreement (For Approved Section 102 Awards).                                                                                                                                                                                   |
| 10(f)             | Form of 2006 Long-Term Incentive Award Agreement, For Approved Section 102 Awards (Under the Perrigo Company 2003 Long-Term Incentive Plan).                                                                                                            |
| 10(g)             | Form of 2006 Long-Term Incentive Award Agreement (Under the Perrigo Company 2003 Long-Term Incentive Plan).                                                                                                                                             |
| 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

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(Registrant)

Date: May 8, 2007

By: /s/ Joseph C. Papa

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Joseph C. Papa  
President and Chief Executive Officer

Date: May 8, 2007

By: /s/ Judy L. Brown

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Judy L. Brown  
Executive Vice President and Chief Financial Officer  
(Principal Accounting and Financial Officer)

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