

PERRIGO CO  
Form 10-Q  
November 02, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended: September 25, 2010

OR

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

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

Commission file number 0-19725

**PERRIGO COMPANY**

(Exact name of registrant as specified in its charter)

**Michigan**  
(State or other jurisdiction of  
incorporation or organization)

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

**515 Eastern Avenue**

**Allegan, Michigan**  
(Address of principal  
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**  **NO**

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

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

**Large accelerated filer**

**Accelerated filer**

**Non-accelerated filer**

**Smaller reporting company**

(Do not check if a smaller reporting company)

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

As of October 29, 2010, the registrant had 92,234,000 outstanding shares of common stock.

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**PERRIGO COMPANY**

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**Cautionary Note Regarding Forward-Looking Statements**

Certain statements in this report are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created thereby. These statements relate to future events or the Company's future financial performance and involve known and unknown risks, uncertainties and other factors that may cause the actual results, levels of activity, performance or achievements of the Company or its industry to be materially different from those expressed or implied by any forward-looking statements. In particular, statements about the Company's expectations, beliefs, plans, objectives, assumptions, future events or future performance contained in this report, including certain statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as may, will, could, would, should, expect, plan, anticipate, intend, believe, estimate, predict, potential or the negative or comparable terminology. Please see Item 1A of the Company's Form 10-K for the year ended June 26, 2010 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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## Item 1. Financial Statements (Unaudited)

**PERRIGO COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share amounts)

(unaudited)

	<b>2011</b>	<b>First Quarter 2010 As Adjusted (Note 1)</b>
Net sales	\$ 641,322	\$ 528,333
Cost of sales	427,368	365,121
<b>Gross profit</b>	<b>213,954</b>	<b>163,212</b>
Operating expenses		
Distribution	8,333	6,471
Research and development	17,727	18,752
Selling and administration	76,127	51,860
Subtotal	102,187	77,083
Write-off of in-process research and development	-	14,000
Total	102,187	91,083
Operating income	111,767	72,129
Interest, net	10,087	6,495
Other expense (income), net	(559)	704
Income from continuing operations before income taxes	102,239	64,930
Income tax expense	28,561	13,830
Income from continuing operations	73,678	51,100
Income from discontinued operations, net of tax	697	761
Net income	\$ 74,375	\$ 51,861
Earnings per share <sup>(1)</sup>		
Basic		
Continuing operations	\$ 0.80	\$ 0.56
Discontinued operations	0.01	0.01
Basic earnings per share	\$ 0.81	\$ 0.56
Diluted		
Continuing operations	\$ 0.79	\$ 0.55
Discontinued operations	0.01	0.01
Diluted earnings per share	\$ 0.80	\$ 0.56

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Weighted average shares outstanding		
Basic	91,824	92,044
Diluted	93,269	93,396
Dividends declared per share	\$ 0.0625	\$ 0.055

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

See accompanying notes to condensed consolidated financial statements.

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

(in thousands)

(unaudited)

	September 25, 2010	June 26, 2010 As Adjusted (Note 1)	September 26, 2009 As Adjusted (Note 1)
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 56,098	\$ 109,765	\$ 243,965
Restricted cash	-	400,000	-
Investment securities	560	559	568
Accounts receivable, net	417,870	357,185	335,365
Inventories	461,244	452,980	390,588
Current deferred income taxes	30,753	26,135	28,366
Income taxes refundable	1,771	14,439	5,565
Prepaid expenses and other current assets	42,082	28,403	24,528
Current assets of discontinued operations	6,615	7,375	73,018
<b>Total current assets</b>	<b>1,016,993</b>	<b>1,396,841</b>	<b>1,101,963</b>
Property and equipment	906,100	885,169	785,705
Less accumulated depreciation	(454,490)	(436,586)	(423,404)
	451,610	448,583	362,301
Restricted cash	-	-	400,000
Goodwill and other indefinite-lived intangible assets	635,189	624,663	277,073
Other intangible assets, net	583,226	587,000	211,667
Non-current deferred income taxes	12,707	-	-
Other non-current assets	72,031	52,677	53,510
	\$ 2,771,756	\$ 3,109,764	\$ 2,406,514
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 261,959	\$ 267,311	\$ 231,290
Short-term debt	64,524	9,000	-
Payroll and related taxes	58,568	79,219	55,633
Accrued customer programs	70,984	59,898	60,160
Accrued liabilities	73,376	90,046	54,553
Accrued income taxes	37,148	9,125	16,245
Current portion of long-term debt	-	400,000	18,292
Current liabilities of discontinued operations	4,206	5,370	23,026
<b>Total current liabilities</b>	<b>570,765</b>	<b>919,969</b>	<b>459,199</b>
<b>Non-current liabilities</b>			
Long-term debt, less current portion	840,000	935,000	825,000
Non-current deferred income taxes	17,000	54,064	59,985
Other non-current liabilities	139,200	106,791	99,111
<b>Total non-current liabilities</b>	<b>996,200</b>	<b>1,095,855</b>	<b>984,096</b>
Shareholders' equity			

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Controlling interest shareholders' equity:			
Preferred stock, without par value, 10,000 shares authorized	-	-	-
Common stock, without par value, 200,000 shares authorized	435,482	428,457	435,278
Accumulated other comprehensive income	78,418	43,200	60,429
Retained earnings	689,035	620,439	465,722
	1,202,935	1,092,096	961,429
Noncontrolling interest	1,856	1,844	1,790
Total shareholders' equity	1,204,791	1,093,940	963,219
	\$ 2,771,756	\$ 3,109,764	\$ 2,406,514

Supplemental Disclosures of Balance Sheet Information

Related to Continuing Operations

Allowance for doubtful accounts	\$ 8,128	\$ 8,015	\$ 12,984
Working capital	\$ 443,819	\$ 474,867	\$ 592,772
Preferred stock, shares issued and outstanding	-	-	-
Common stock, shares issued and outstanding	92,205	91,694	91,779

See accompanying notes to condensed consolidated financial statements.



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

(in thousands)

(unaudited)

	<b>First Quarter</b>	
	<b>2011</b>	<b>2010</b>
		<b>As Adjusted</b>
		<b>(Note 1)</b>
<b>Cash Flows (For) From Operating Activities</b>		
Net income	\$ 74,375	\$ 51,861
Adjustments to derive cash flows		
Write-off of in-process research and development	-	14,000
Depreciation and amortization	23,436	16,229
Share-based compensation	3,682	2,917
Income tax benefit from exercise of stock options	1,941	647
Excess tax benefit of stock transactions	(9,465)	(2,430)
Deferred income taxes	(59,069)	(12,752)
Sub-total	34,900	70,472
<b>Changes in operating assets and liabilities, net of asset and business acquisitions</b>		
Accounts receivable	(58,401)	(23,901)
Inventories	(3,559)	(3,408)
Income taxes refundable	12,668	2,653
Accounts payable	(9,636)	(29,907)
Payroll and related taxes	(21,191)	3,468
Accrued customer programs	11,201	5,769
Accrued liabilities	(12,899)	(4,497)
Accrued income taxes	36,484	20,524
Other	4,271	(4,816)
Sub-total	(41,062)	(34,115)
Net cash (for) from operating activities	(6,162)	36,357
<b>Cash Flows (For) From Investing Activities</b>		
Acquired research and development	-	(14,000)
Acquisition of business - purchase price adjustment	1,998	-
Acquisition of business, net of cash acquired	-	(10,059)
Additions to property and equipment	(9,194)	(7,515)
Acquisitions of assets	-	(5,110)
Net cash for investing activities	(7,196)	(36,684)
<b>Cash Flows (For) From Financing Activities</b>		
Repayments of short-term debt, net	(7,476)	-
Repayments of long-term debt	(95,000)	(50,000)
Net borrowings under accounts receivable securitization program	63,000	-
Excess tax benefit of stock transactions	9,465	2,430
Issuance of common stock	3,987	3,620
Repurchase of common stock	(8,168)	(25,286)

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Cash dividends	(5,780)	(5,106)
Net cash for financing activities	(39,972)	(74,342)
Effect of exchange rate changes on cash	(337)	997
Net decrease in cash and cash equivalents	(53,667)	(73,672)
Cash and cash equivalents of continuing operations, beginning of period	109,765	317,638
Cash balance of discontinued operations, beginning of period	-	4
Cash and cash equivalents, end of period	56,098	243,970
Less cash balance of discontinued operations, end of period	-	(5)
Cash and cash equivalents of continuing operations, end of period	\$ 56,098	\$ 243,965

Supplemental Disclosures of Cash Flow Information

Cash paid/received during the period for:

Interest paid	\$ 6,885	\$ 5,231
Interest received	\$ 1,986	\$ 5,368
Income taxes paid	\$ 29,856	\$ 3,096
Income taxes refunded	\$ 893	\$ 938

See accompanying notes to condensed consolidated financial statements.

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**PERRIGO COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 25, 2010**

(in thousands, except per share amounts)

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

*The Company*

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

*Basis of Presentation*

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

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

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

*Principles of Consolidation*

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



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

**Table of Contents****PERRIGO COMPANY****NOTES TO CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share amounts)

(unaudited)

	<b>Three Months Ended September 26, 2009</b>		
	<b>As Reported</b>	<b>Adjustments</b>	<b>After Voluntary Change in Accounting Principle</b>
Net sales	\$ 528,001	\$ 332	\$ 528,333
Cost of sales	364,007	1,114	365,121
<b>Gross profit</b>	<b>163,994</b>	<b>(782)</b>	<b>163,212</b>
Operating expenses			
Distribution	6,521	(50)	6,471
Research and development	18,497	255	18,752
Selling and administration	52,407	(547)	51,860
Subtotal	77,425	(342)	77,083
Write-off of in-process research and development	-	14,000	14,000
<b>Total</b>	<b>77,425</b>	<b>13,658</b>	<b>91,083</b>
Operating income	86,569	(14,440)	72,129
Interest, net	6,663	(168)	6,495
Other expense, net	1,017	(313)	704
Income from continuing operations before income taxes	78,889	(13,959)	64,930
Income tax expense	17,864	(4,034)	13,830
Income from continuing operations	61,025	(9,925)	51,100
Income from discontinued operations, net of tax	273	488	761
<b>Net income</b>	<b>\$ 61,298</b>	<b>\$ (9,437)</b>	<b>\$ 51,861</b>
<b>Earnings per share <sup>(1)</sup></b>			
Basic			
Continuing operations	\$ 0.66	\$ (0.10)	\$ 0.56
Discontinued operations	0.00	0.01	0.01
<b>Basic earnings per share</b>	<b>\$ 0.67</b>	<b>\$ (0.11)</b>	<b>\$ 0.56</b>
Diluted			
Continuing operations	\$ 0.65	\$ (0.10)	\$ 0.55
Discontinued operations	0.00	0.01	0.01

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Diluted earnings per share	\$ 0.66	\$ (0.10)	\$ 0.56
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(1) The sum of individual per share amounts may not equal due to rounding.

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

(in thousands)

(unaudited)

<b>June 26, 2010</b>	<b>As Reported</b>	<b>Adjustments</b>	<b>After Voluntary Change in Accounting Principle</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 97,568	\$ 12,197	\$ 109,765
Restricted cash	400,000	-	400,000
Investment securities	557	2	559
Accounts receivable, net	358,500	(1,315)	357,185
Inventories	448,871	4,109	452,980
Current deferred income taxes	26,648	(513)	26,135
Income taxes refundable	13,864	575	14,439
Prepaid expenses and other current assets	28,071	332	28,403
Current assets of discontinued operations	7,214	161	7,375
<b>Total current assets</b>	<b>1,381,293</b>	<b>15,548</b>	<b>1,396,841</b>
Property and equipment	885,953	(784)	885,169
Less accumulated depreciation	(437,037)	451	(436,586)
	448,916	(333)	448,583
Goodwill and other indefinite-lived intangible assets	622,745	1,918	624,663
Other intangible assets, net	587,094	(94)	587,000
Other non-current assets	52,688	(11)	52,677
	\$ 3,092,736	\$ 17,028	\$ 3,109,764
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 258,493	\$ 8,818	\$ 267,311
Short-term debt	9,000	-	9,000
Payroll and related taxes	82,088	(2,869)	79,219
Accrued customer programs	59,898	-	59,898
Accrued liabilities	88,750	1,296	90,046
Accrued income taxes	3,048	6,077	9,125
Current portion of long-term debt	400,000	-	400,000
Current liabilities of discontinued operations	5,428	(58)	5,370
<b>Total current liabilities</b>	<b>906,705</b>	<b>13,264</b>	<b>919,969</b>
<b>Non-current liabilities</b>			
Long-term debt, less current portion	935,000	-	935,000
Non-current deferred income taxes	55,333	(1,269)	54,064
Other non-current liabilities	107,043	(252)	106,791
<b>Total non-current liabilities</b>	<b>1,097,376</b>	<b>(1,521)</b>	<b>1,095,855</b>