

PERRIGO CO
 Form 10-Q
 May 07, 2013

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

FORM 10-Q

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

For the quarterly period ended: March 30, 2013

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 (Do not check if a smaller reporting company) Smaller reporting company

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

As of May 3, 2013, the registrant had 94,039,071 outstanding shares of common stock.

Table of Contents

PERRIGO COMPANY
FORM 10-Q
INDEX

	PAGE NUMBER
<u>Cautionary Note Regarding Forward-Looking Statements</u>	1
PART I. FINANCIAL INFORMATION	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed consolidated statements of income - For the three and nine months ended March 30, 2013 and March 31, 2012</u>	2
<u>Condensed consolidated statements of comprehensive income - For the three and nine months ended March 30, 2013 and March 31, 2012</u>	3
<u>Condensed consolidated balance sheets - March 30, 2013, June 30, 2012 and March 31, 2012</u>	4
<u>Condensed consolidated statements of cash flows - For the nine months ended March 30, 2013 and March 31, 2012</u>	5
<u>Notes to condensed consolidated financial statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	42
<u>Item 4. Controls and Procedures</u>	43
PART II. OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	44
<u>Item 1A. Risk Factors</u>	44
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
<u>Item 4. Mine Safety Disclosures</u>	46
<u>Item 5. Other Events</u>	46
<u>Item 6. Exhibits</u>	47
<u>SIGNATURES</u>	48
<u>EXHIBIT INDEX</u>	49

Table of Contents

Cautionary Note Regarding Forward-Looking Statements

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

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

PERRIGO COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended		Nine Months Ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Net sales	\$919,825	\$778,017	\$2,572,594	\$2,341,482
Cost of sales	588,464	498,744	1,648,799	1,539,755
Gross profit	331,361	279,273	923,795	801,727
Operating expenses				
Distribution	12,569	10,181	35,035	29,540
Research and development	28,526	27,950	84,244	78,736
Selling and administration	111,660	87,991	305,480	278,080
Restructuring	—	7,081	—	7,081
Total operating expenses	152,755	133,203	424,759	393,437
Operating income	178,606	146,070	499,036	408,290
Interest, net	16,070	16,651	47,237	44,862
Other expense (income), net	841	(5,202)	) 855	(4,221)
Losses on sales of investments	1,608	—	4,657	—
Income before income taxes	160,087	134,621	446,287	367,649
Income tax expense	48,163	18,894	122,828	81,725
Net income	\$111,924	\$115,727	\$323,459	\$285,924
Earnings per share				
Basic earnings per share	\$1.19	\$1.24	\$3.45	\$3.07
Diluted earnings per share	\$1.18	\$1.23	\$3.42	\$3.04
Weighted average shares outstanding				
Basic	93,989	93,330	93,833	93,152
Diluted	94,519	94,124	94,443	94,028
Dividends declared per share	\$0.09	\$0.08	\$0.26	\$0.23

See accompanying notes to condensed consolidated financial statements.

Table of Contents

PERRIGO COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Net income	\$ 111,924	\$ 115,727	\$ 323,459	\$ 285,924
Other comprehensive income (loss):				
Change in fair value of derivative financial instruments, net of tax	1,638	2,642	8,344	(6,650)
Foreign currency translation adjustments	4,784	22,214	38,234	(43,598)
Change in fair value of investment securities, net of tax	295	—	1,332	(933)
Post-retirement liability adjustments, net of tax	—	(28)	(41)	(69)
Other comprehensive income (loss), net of tax	6,717	24,828	47,869	(51,250)
Comprehensive income	\$ 118,641	\$ 140,555	\$ 371,328	\$ 234,674

See accompanying notes to condensed consolidated financial statements.

Table of ContentsPERRIGO COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	March 30, 2013	June 30, 2012	March 31, 2012
Assets			
Current assets			
Cash and cash equivalents	\$ 300,827	\$ 602,489	\$ 554,280
Accounts receivable, net	618,666	572,582	560,740
Inventories	684,741	547,455	589,947
Current deferred income taxes	43,068	45,738	51,269
Income taxes refundable	5,479	1,047	766
Prepaid expenses and other current assets	44,847	26,610	33,886
Total current assets	1,697,628	1,795,921	1,790,888
Property and equipment	1,236,444	1,118,837	1,096,749
Less accumulated depreciation	(593,186	) (540,487	) (532,335
	643,258	578,350	564,414
Goodwill and other indefinite-lived intangible assets	1,127,954	820,122	830,689
Other intangible assets, net	938,544	729,253	752,600
Non-current deferred income taxes	17,223	13,444	12,390
Other non-current assets	71,281	86,957	89,073
	\$ 4,495,888	\$ 4,024,047	\$ 4,040,054
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable	\$ 325,415	\$ 317,341	\$ 307,017
Short-term debt	4,513	90	—
Payroll and related taxes	72,832	89,934	74,450
Accrued customer programs	128,676	116,055	103,868
Accrued liabilities	83,260	76,406	83,886
Accrued income taxes	17,639	12,905	20,530
Current portion of long-term debt	41,285	40,000	40,000
Total current liabilities	673,620	652,731	629,751
Non-current liabilities			
Long-term debt, less current portion	1,331,684	1,329,235	1,454,620
Non-current deferred income taxes	80,474	24,126	19,543
Other non-current liabilities	184,782	165,310	163,466
Total non-current liabilities	1,596,940	1,518,671	1,637,629
Shareholders' Equity			
Controlling interest:			
Preferred stock, without par value, 10,000 shares authorized	—	—	—
Common stock, without par value, 200,000 shares authorized	530,780	504,708	496,320
Accumulated other comprehensive income	87,273	39,404	75,800
Retained earnings	1,605,894	1,306,925	1,198,740
	2,223,947	1,851,037	1,770,860
Noncontrolling interest	1,381	1,608	1,814
Total shareholders' equity	2,225,328	1,852,645	1,772,674
	\$ 4,495,888	\$ 4,024,047	\$ 4,040,054
Supplemental Disclosures of Balance Sheet Information			

Edgar Filing: PERRIGO CO - Form 10-Q

Allowance for doubtful accounts	\$2,219	\$2,556	\$2,483
Working capital	\$1,024,008	\$1,143,190	\$1,161,137
Preferred stock, shares issued and outstanding	—	—	—
Common stock, shares issued and outstanding	94,022	93,484	93,405

See accompanying notes to condensed consolidated financial statements.

4

Table of Contents

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

	Nine Months Ended	
	March 30, 2013	March 31, 2012
Cash Flows From (For) Operating Activities		
Net income	\$323,459	\$285,924
Adjustments to derive cash flows		
Gain on sale of pipeline development projects	—	(3,500)
Restructuring	—	7,081
Losses on sales of investments	4,657	—
Depreciation and amortization	112,817	101,712
Share-based compensation	14,037	13,924
Income tax benefit from exercise of stock options	(271)	(447)
Excess tax benefit of stock transactions	(15,365)	(12,202)
Deferred income taxes	(3,069)	12,021
Subtotal	436,265	404,513
Changes in operating assets and liabilities, net of business acquisitions		
Accounts receivable	(5,919)	(28,723)
Inventories	(81,269)	(27,523)
Accounts payable	(17,424)	(43,867)
Payroll and related taxes	(21,430)	(9,707)
Accrued customer programs	10,008	(13,755)
Accrued liabilities	10,113	17,584
Accrued income taxes	31,161	19,077
Other	18,607	(5,979)
Subtotal	(56,153)	(92,893)
Net cash from operating activities	380,112	311,620
Cash Flows (For) From Investing Activities		
Acquisitions of businesses, net of cash acquired	(607,776)	(582,329)
Proceeds from sale of securities	8,630	—
Proceeds from sale of intangible assets and pipeline development projects	—	10,500
Additions to property and equipment	(63,480)	(85,715)
Acquisitions of intangible assets	—	(750)
Net cash for investing activities	(662,626)	(658,294)
Cash Flows (For) From Financing Activities		
Borrowings (repayments) of short-term debt, net	4,423	(2,770)
Borrowings of long-term debt	40,786	1,089,620
Repayments of long-term debt	(40,000)	(485,000)
Deferred financing fees	(643)	(5,108)
Excess tax benefit of stock transactions	15,365	12,202
Issuance of common stock	8,706	10,040
Repurchase of common stock	(12,321)	(7,954)
Cash dividends	(24,490)	(21,516)
Net cash (for) from financing activities	(8,174)	589,514
Effect of exchange rate changes on cash	(10,974)	1,336
Net (decrease) increase in cash and cash equivalents	(301,662)	244,176
Cash and cash equivalents, beginning of period	602,489	310,104

Edgar Filing: PERRIGO CO - Form 10-Q

Cash and cash equivalents, end of period	\$300,827	\$554,280
Supplemental Disclosures of Cash Flow Information		
Cash paid/received during the period for:		
Interest paid	\$31,234	\$29,234
Interest received	\$2,473	\$2,222
Income taxes paid	\$93,518	\$53,216
Income taxes refunded	\$1,312	\$830
See accompanying notes to condensed consolidated financial statements.		

5

Table of Contents

PERRIGO COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 30, 2013

(in thousands, except per share amounts)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

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

Basis of Presentation

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

The Company's sales of OTC pharmaceutical products are subject to the seasonal demands for cough/cold/flu and allergy products. In addition, with the acquisition of Sergeant's Pet Care Products, Inc. ("Sergeant's") discussed in Note 2, the Company's pet healthcare products are subject to the seasonal demand for flea and tick products, which typically peaks during the warmer weather months. Accordingly, operating results for the nine months ended March 30, 2013, are not necessarily indicative of the results that may be expected for a full fiscal year. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended June 30, 2012.

The Company's fiscal year is a 52- or 53-week period, which ends the Saturday on or about June 30. An extra week is required approximately every six years in order to re-align the Company's fiscal reporting dates with the actual calendar months. This extra week occurred in the Company's second quarter of fiscal 2012. Fiscal 2013 is a 52-week year and included 39 weeks of operations in the year-to-date results. Fiscal 2012 was a 53-week year and included 40 weeks of operations in the year-to-date results. This factor should be considered when comparing the Company's year-to-date fiscal 2013 financial results to the prior year period.

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

Principles of Consolidation

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

Recently Adopted Accounting Standards

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-02"). Under ASU 2013-02, an entity is required to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income ("AOCI") by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if

Table of Contents

the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in the financial statements. ASU 2013-02 is effective for the Company in the first quarter of fiscal 2014.

In December 2011, the FASB issued ASU 2011-11 "Disclosures about Offsetting Assets and Liabilities" ("ASU 2011-11"), as clarified with ASU 2013-01 "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities" ("ASU 2013-01") issued in January 2013. These common disclosure requirements are intended to help investors and other financial statement users better assess the effect or potential effect of offsetting arrangements on a portfolio's financial position. They also improve transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. In addition, ASU 2011-11 facilitates comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of International Financial Reporting Standards. ASU 2011-11 requires entities to disclose both gross and net information about both instruments and transactions eligible for offset in the statement of financial position; and disclose instruments and transactions subject to an agreement similar to a master netting agreement. Both ASU 2011-11 and ASU 2013-01 are effective for the Company in the first quarter of fiscal 2014.

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income" ("ASU 2011-05"). The amendments in this ASU improve the prominence of other comprehensive income items and align the presentation of other comprehensive income with International Financial Reporting Standards. These changes allow an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single statement of comprehensive income or in two separate and consecutive statements. Both methods must still report each component of net income with total income, each component of other comprehensive income with a total amount of other comprehensive income, and a total amount of comprehensive income. The amendments in this ASU are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. The amendments should be applied retrospectively. This guidance was effective for the Company in the first quarter of fiscal 2013.

In December 2011, the FASB issued ASU 2011-12, "Comprehensive Income (ASC Topic 220) - Deferral of Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." This ASU defers the effective date for the part of ASU 2011-05 that would require adjustments of items out of accumulated other comprehensive income to be presented on the components of both net income and other comprehensive income in financial statements. The changes in ASU 2011-05 would have been effective for annual and interim periods beginning on or after December 15, 2011, but those changes were initially deferred and are now clarified in the newly issued ASU 2013-02, which is effective for the Company in the first quarter of fiscal 2014, as described above. The Company has provided the disclosures required under the remainder of ASU 2011-05 in the condensed consolidated statements of comprehensive income.

NOTE 2 – BUSINESS ACQUISITIONS

Fiscal 2013

Rosemont Pharmaceuticals Ltd. – On February 11, 2013, the Company acquired 100% of the shares of privately-held Rosemont Pharmaceuticals Ltd. ("Rosemont") for approximately \$283,000 in cash. Based in Leeds, U.K., Rosemont is a specialty and generic prescription pharmaceutical company focused on the manufacturing and marketing of oral liquid formulations. The acquisition expanded the global presence of the Company's Rx product offering into the U.K. and Europe. At the end of the third quarter of fiscal 2013, the Company had incurred approximately \$2,000 of acquisition costs, all of which were expensed in operations in the third quarter of fiscal 2013.

The acquisition was accounted for under the acquisition method of accounting, and the related assets acquired and liabilities assumed were recorded at fair value. The operating results for Rosemont are included in the Rx

Pharmaceuticals segment of the Company's consolidated results of operations from the acquisition date to March 30, 2013. Since the acquisition date, Rosemont contributed \$8,200 in revenue and operating income of \$300, which included a charge of approximately \$1,900 to cost of sales related to the step-up in value of inventory acquired and sold during the third quarter of fiscal 2013.

Table of Contents

The preliminary allocation of the purchase price through March 30, 2013 was:

Cash	\$2,135
Accounts receivable	10,875
Inventory	9,508
Property and equipment	13,059
Deferred income tax assets	218
Goodwill	145,690
Other intangible assets	148,663
Other assets	769
Total assets acquired	330,917
Accounts payable	2,553
Accrued expenses	7,083
Deferred tax liabilities	35,801
Other long-term liabilities	2,513
Total liabilities assumed	47,950
Net assets acquired	\$282,967

The allocation of the purchase price above is considered preliminary and was based on valuation information, estimates and assumptions available at March 30, 2013. Management is still in the process of verifying data and finalizing information related to the valuation and recording of inventory, property and equipment, identifiable intangible assets, deferred income taxes and the resulting effects on the value of goodwill. As the values of certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained. Any changes to the preliminary valuation of assets acquired or liabilities assumed may result in material adjustments. Any measurement period adjustments will be applied retrospectively to the acquisition date. The Company expects to finalize these matters within the measurement period, which is expected to end in the fourth quarter of fiscal 2013, as final asset and liability valuations are completed.

The \$145,690 of goodwill was assigned to the Rx Pharmaceuticals segment at the time of acquisition. The purchase price in excess of the value of Rosemont's net assets reflects the strategic value the Company placed on the business. The Company believes it will benefit from the development of Rosemont's Rx product offering in the U.K. and Europe. Goodwill is not amortized for financial reporting or tax purposes. See Note 6 regarding the timing of the Company's annual goodwill impairment testing.

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

Developed product technology	\$114,610
In-process research and development ("IPR&D")	11,618
Trade name and trademarks	17,270
Distribution and license agreements	3,611
Non-compete agreements	1,554
Total intangible assets acquired	\$148,663

Management assigned fair values to the identifiable intangible assets through a combination of the excess earnings method, the relief from royalty method and the lost income method. The developed product technology assets are based on a 7-year useful life and amortized on a straight-line basis. IPR&D assets initially recognized at fair value will be classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. An IPR&D asset is tested for impairment during the period it is considered an indefinite-lived asset. For the trade name and trademarks, the Company concluded that there is no foreseeable limit to the period over which they would be expected to contribute to the entity's cash flows; therefore, they are considered to have an

indefinite life. The distribution and license agreements are based on a 14-year useful life and amortized on a proportionate basis consistent with the economic benefits derived therefrom. There is one non-compete agreement based on a 3-year useful life, which is amortized on a straight-line basis.

At the time of the acquisition, a step-up in the value of inventory of \$3,200 was recorded in the opening balance sheet as assets acquired and was based on valuation estimates, of which \$1,900 was charged to cost of sales in the third quarter of

8

Table of Contents

fiscal 2013 as the acquired inventory was sold. In addition, fixed assets were written up by \$4,900 to their estimated fair market value based on a valuation method that included both the cost and market approaches. This additional step-up in value is being depreciated over the estimated remaining useful lives of the assets.

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

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

During the measurement period, which ended March 30, 2013, the Company finalized deferred income taxes, which resulted in an adjustment between goodwill and deferred tax assets. The following table summarizes the final fair values of the assets acquired and liabilities assumed related to the Cobrek acquisition:

	Initial Valuation	Measurement Period Adjustments	Final Valuation	
Other assets	\$371	\$—	\$371	
Deferred income tax assets	—	3,554	3,554	
Goodwill	18,823	(3,554	) 15,269
Other intangible assets - Exclusive technology agreements	51,122	—	51,122	
Deferred tax liabilities	(18,823)—	(18,823)
Total purchase price	\$51,493	\$—	\$51,493	

The total purchase price above consists of the \$41,967 cash purchase price and the \$9,526 adjusted basis of the Company's existing investment in Cobrek. The \$15,269 of goodwill was assigned to the Rx Pharmaceuticals segment at the time of acquisition. Goodwill is not amortized for financial reporting or tax purposes.

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

Sergeant's Pet Care Products, Inc. – On October 1, 2012, the Company completed the acquisition of substantially all of the assets of privately-held Sergeant's for \$285,000 in cash. Headquartered in Omaha, Nebraska, Sergeant's is a leading supplier of pet healthcare products, including flea and tick remedies, health and well-being products, natural and formulated treats, and consumable products. The acquisition expanded the Company's Consumer Healthcare product portfolio into the pet healthcare category. At the end of the third quarter of fiscal 2013, the Company had incurred approximately \$2,000 of acquisition costs, the majority of which were expensed in the first quarter of fiscal 2013.

The acquisition was accounted for under the acquisition method of accounting, and the related assets acquired and liabilities assumed were recorded at fair value. The operating results for Sergeant's are included in the Consumer Healthcare segment of the Company's consolidated results of operations from the acquisition date to March 30, 2013. Since the acquisition date, Sergeant's contributed \$56,100 in revenue and an operating loss of \$11,200, which included a non-recurring charge of \$7,700 to cost of sales related to the step-up in value of inventory acquired and sold during the second quarter of fiscal 2013.

Table of Contents

During the measurement period, which ended March 30, 2013, the Company finalized the valuation of identified intangible assets, which resulted in an adjustment between goodwill and other intangible assets. The following table summarizes the final fair values of the assets acquired and liabilities assumed related to the Sergeant's acquisition:

	Initial Valuation	Measurement Period Adjustments	Final Valuation
Cash	\$23	\$—	\$23
Accounts receivable	19,696	—	19,696
Inventory	37,689	—	37,689
Property and equipment	25,396	—	25,396
Deferred income tax assets	1,508	—	1,508
Goodwill	68,229	12,000	80,229
Other intangible assets	147,450	(12,000)	135,450
Other assets	2,966	—	2,966
Total assets acquired	302,957	—	302,957
Accounts payable	13,733	—	13,733
Accrued expenses	4,224	—	4,224
Total liabilities assumed	17,957	—	17,957
Net assets acquired	\$285,000	\$—	\$285,000

The \$80,229 of goodwill was assigned to the Consumer Healthcare segment at the time of acquisition. The purchase price in excess of the value of Sergeant's net assets reflects the strategic value the Company placed on the business. The Company believes it will benefit from the development of the pet healthcare store brand category, an adjacent category to the Company's retail customers of its existing store brand products. Goodwill is not amortized for financial reporting purposes, but is amortized for tax purposes. See Note 6 regarding the timing of the Company's annual goodwill impairment testing.

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

Developed product technology	\$66,140
Trade name and trademarks	33,000
Favorable supply agreement	25,000
Customer relationships	10,000
Non-compete agreements	1,310
Total intangible assets acquired	\$135,450

Management assigned fair values to the identifiable intangible assets through a combination of the relief from royalty method, the excess earnings method, the with or without approach and the lost income method. The developed product technology assets are based on a 10-year useful life and amortized on a straight-line basis. For the trade name and trademarks, the Company concluded that there is no foreseeable limit to the period over which they would be expected to contribute to the entity's cash flows; therefore, they are considered to have an indefinite life. The favorable supply agreement and customer relationships are based on a 7- and 20-year useful life, respectively, and amortized on a proportionate basis consistent with the economic benefits derived therefrom. There are nine non-compete agreements, eight based on a 12-month useful life and one based on a 3-year useful life, and all are amortized on a straight-line basis.

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

additional step-up in value is being depreciated over the estimated remaining useful lives of the assets.

Fiscal 2012

CanAm Care, LLC – On January 6, 2012, the Company acquired substantially all of the assets of CanAm Care, LLC ("CanAm"), a distributor of diabetes care products, located in Alpharetta, Georgia, for \$39,014. The purchase price included an

10

Table of Contents

up-front cash payment of \$36,114 and contingent consideration totaling \$2,900 based primarily on the estimated fair value of contingent payments to the seller pending the Company's future execution of a promotion agreement with a third-party related to a certain diabetes care product. In the first quarter of fiscal 2013, the Company executed the promotion agreement with the third-party and paid the seller the initial consideration of \$2,000. See Note 4 regarding the valuation of the remaining \$900 of contingent consideration. The acquisition expanded the Company's diabetic product offering within the Consumer Healthcare segment.

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

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

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

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

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

Customer relationships	\$12,000
Developed product technology	1,600
Non-compete agreements	1,540
Trade name and trademarks	690
Total intangible assets acquired	\$15,830

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

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

offering, pipeline and scale.

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

Table of Contents

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

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

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

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

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

Developed product technology	\$237,000
IPR&D	35,000
Total intangible assets acquired	\$272,000

Management assigned fair values to the identifiable intangible assets through the excess earnings method. The developed product technology assets are based on a 10-year useful life and amortized on a straight-line basis. IPR&D assets initially recognized at fair value will be classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. At March 30, 2013, the IPR&D assets acquired in the acquisition have not progressed to the point of establishing developed technologies.

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

As a condition to Federal Trade Commission approval of the overall transaction with Paddock, immediately subsequent to the acquisition, the Company sold to Watson Pharmaceuticals four Abbreviated New Drug Application ("ANDA") products acquired as part of the Paddock portfolio along with the rights to two of the Company's pipeline

development projects for a total of \$10,500. The Company allocated \$7,000 of proceeds to the four ANDA products and wrote off the corresponding developed product technology intangible asset, which was recorded at its fair value of \$7,000. In addition, the Company recorded a \$3,500 gain on the sale of its pipeline development projects.

Table of Contents

NOTE 3 – EARNINGS PER SHARE

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

	Three Months Ended		Nine Months Ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Numerator:				
Net income	\$ 111,924	\$ 115,727	\$ 323,459	\$ 285,924
Denominator:				
Weighted average shares outstanding for basic EPS	93,989	93,330	93,833	93,152
Dilutive effect of share-based awards	530	794	610	876
Weighted average shares outstanding for diluted EPS	94,519	94,124	94,443	94,028

Share-based awards outstanding that were anti-dilutive were 198 and 190 for the third quarter of fiscal 2013 and 2012, respectively. Year-to-date share-based awards outstanding that were anti-dilutive were 158 and 157 for fiscal 2013 and 2012, respectively. These share-based awards were excluded from the diluted EPS calculation.

NOTE 4 – FAIR VALUE MEASUREMENTS

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

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

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

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

The following tables summarize the valuation of the Company's financial instruments by the above pricing categories as of March 30, 2013, June 30, 2012, and March 31, 2012:

	Fair Value Measurements as of March 30, 2013 Using:			
	Total as of March 30, 2013	Quoted Prices In Active Markets (Level 1)	Prices With Other Observable Inputs (Level 2)	Prices With Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$ 113,312	\$ 113,312	\$—	\$—
Foreign currency forward contracts, net	8,307	—	8,307	—
Funds associated with Israeli post employment benefits	16,451	—	16,451	—
Total	\$ 138,070	\$ 113,312	\$ 24,758	\$—

Liabilities:

Contingent consideration	\$900	\$—	\$—	\$900
Interest rate swap agreements	13,306	—	13,306	—
Total	\$14,206	\$—	\$13,306	\$900

13

Table of Contents

Fair Value Measurements as of June 30, 2012 Using:

	Total as of June 30, 2012	Quoted Prices In Active Markets (Level 1)	Prices With Other Observable Inputs (Level 2)	Prices With Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$479,548	\$479,548	\$—	\$—
Investment securities	6,470	—	—	6,470
Funds associated with Israeli post employment benefits	14,973	—	14,973	—
Total	\$500,991	\$479,548	\$14,973	\$6,470
Liabilities:				
Contingent consideration	\$2,900	\$—	\$—	\$2,900
Interest rate swap agreements	14,706	—	14,706	—
Foreign currency forward contracts, net	5,567	—	5,567	—
Total	\$23,173	\$—	\$20,273	\$2,900

Fair Value Measurements as of March 31, 2012 Using:

	Total as of March 31, 2012	Quoted Prices In Active Markets (Level 1)	Prices With Other Observable Inputs (Level 2)	Prices With Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$451,521	\$451,521	\$—	\$—
Investment securities	6,570	—	—	6,570
Funds associated with Israeli post employment benefits	15,264	—	15,264	—
Total	\$473,355	\$451,521	\$15,264	\$6,570
Liabilities:				
Contingent consideration	\$2,900	\$—	\$—	\$2,900
Foreign currency forward contracts, net	698	—	698	—
Interest rate swap agreements	13,248	—	13,248	—
Total	\$16,846	\$—	\$13,946	\$2,900

The carrying amounts of the Company's financial instruments, consisting of cash and cash equivalents, accounts receivable, accounts payable, short-term debt and variable rate long-term debt, approximate their fair value. As of March 30, 2013, the carrying value and fair value of the Company's fixed rate long-term debt were \$965,000 and \$1,028,841, respectively. As of June 30, 2012, the carrying value and fair value of the Company's fixed rate long-term debt were \$965,000 and \$1,050,343, respectively. As of March 31, 2012, the carrying value and fair value of the Company's fixed rate long-term debt were \$965,000 and \$1,012,670, respectively. Fair values were calculated by discounting the future cash flows of the financial instruments to their present value, using interest rates currently offered for borrowings and deposits of similar nature and remaining maturities. There were no transfers between Level 1 and Level 2 during the three and nine months ended March 30, 2013. The Company's policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period.

As of March 30, 2013, the Company had \$16,451 deposited in funds managed by financial institutions that are designated by management to cover post employment benefits for its Israeli employees. Israeli law generally requires payment of severance upon dismissal of an employee or upon termination of employment in certain other circumstances. These funds are included in the Company's long-term investments reported in other non-current assets.

The Company's Level 2 securities values are determined using prices for recently traded financial instruments with similar underlying terms, as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

Table of Contents

As of June 30, 2012 and March 31, 2012, the Company held auction rate securities ("ARS") that were recorded at a fair value of \$6,470 and \$6,570, respectively. Subsequent to a second quarter fiscal 2009 other-than-temporary impairment, the Company had recorded unrealized gains and losses on these investments in other comprehensive income because the Company had classified these investments as available-for-sale and had determined that any changes in fair value were temporary in nature. During the third quarter of fiscal 2013, one of the three ARS tranches was called by the issuer, and, as a result, the Company decided to sell all three tranches. Upon the sale, the Company recorded cash proceeds of \$8,630 and recognized a loss of \$1,608 within other expense, of which \$828 was attributable to a decline in market value while \$780 was due to foreign currency transaction loss as these U.S. dollar-denominated securities were held by the Company's Israeli subsidiary, which has a shekel functional currency.

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

The following table presents a rollforward of the assets and liabilities measured at fair value using unobservable inputs (Level 3) at March 30, 2013:

Assets:	Investment Securities (Level 3)	
Balance as of June 30, 2012	\$6,470	
Unrealized gains on ARS	2,160	
Sale of ARS	(8,630)
Balance as of March 30, 2013	\$—	
Liabilities:	Contingent Consideration (Level 3)	
Balance as of June 30, 2012	\$2,900	
Payments	(2,000)
Balance as of March 30, 2013	\$900	

NOTE 5 – INVENTORIES

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

	March 30, 2013	June 30, 2012	March 31, 2012
--	-------------------	------------------	-------------------

Edgar Filing: PERRIGO CO - Form 10-Q

Finished goods	\$327,037	\$235,593	\$266,709
Work in process	175,935	154,238	161,820
Raw materials	181,769	157,624	161,418
Total inventories	\$684,741	\$547,455	\$589,947

As of March 30, 2013, inventories included balances attributable to the acquisitions of Rosemont and Sergeant's.

Table of Contents

NOTE 6 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

	Consumer Healthcare	Nutritionals	Rx Pharmaceuticals	API	Total
Balance as of June 30, 2012	\$ 138,910	\$ 331,744	\$ 220,769	\$ 86,334	\$ 777,757
Business acquisitions	80,229	—	160,959	—	241,188
Currency translation adjustment	(960)	) —	622	6,033	5,695
Balance as of March 30, 2013	\$ 218,179	\$ 331,744	\$ 382,350	\$ 92,367	\$ 1,024,640

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

	March 30, 2013		June 30, 2012		March 31, 2012	
	Gross	Accumulated Amortization	Gross	Accumulated Amortization	Gross	Accumulated Amortization
Amortizable intangibles:						
Developed product technology/formulation and product rights	\$ 779,570	\$ 187,377	\$ 542,094	\$ 140,489	\$ 549,356	\$ 131,815
Customer relationships	351,236	67,086	341,363	50,757	342,405	46,259
Distribution, license and supply agreements	81,566	28,991	52,609	23,686	53,004	22,838
Non-compete agreements	10,708	5,470	7,804	3,778	7,853	3,419
Trademarks	5,110	722	4,797	704	5,026	713
Total	1,228,190	289,646	948,667	219,414	957,644	205,044
Non-amortizable intangibles:						
In-process research and development	46,255	—	35,000	—	35,000	—
Trade names and trademarks	57,059	—	7,365	—	7,481	—
Total other intangible assets	\$ 1,331,504	\$ 289,646	\$ 991,032	\$ 219,414	\$ 1,000,125	\$ 205,044

As of March 30, 2013, other intangible assets included additions made during the second and third quarters of fiscal 2013 attributable to the Rosemont, Sergeant's and Cobrek acquisitions. Certain intangible assets are denominated in currencies other than the U.S. dollar; therefore, their gross and net carrying values are subject to foreign currency movements.

The Company recorded amortization expense of \$64,958 and \$56,313 for the first nine months of fiscal 2013 and 2012, respectively, for intangible assets subject to amortization. The increase in amortization expense is due primarily to the incremental amortization expense incurred on the amortizable intangible assets acquired as part of the Rosemont, Sergeant's and Cobrek acquisitions.

Table of Contents

Estimated future amortization expense includes the additional amortization related to recently acquired intangible assets currently subject to amortization. No estimate of future amortization expense related to the subsequent acquisition of Velcera, Inc. ("Velcera") has been included in the table below (see Note 15 - Subsequent Events). The estimated amortization expense for each of the following five years is as follows:

Fiscal Year	Amount
2013 ⁽¹⁾	\$27,300
2014	108,700
2015	107,500
2016	104,900
2017	102,300

⁽¹⁾ Reflects remaining three months of fiscal 2013.

Table of Contents

NOTE 7 – INDEBTEDNESS

Total borrowings outstanding are summarized as follows:

	March 30, 2013	June 30, 2012	March 31, 2012
Short-term debt:			
Foreign line of credit	\$4,513	\$90	\$—
Current portion of long-term debt:			
Term loans	40,000	40,000	40,000
Other	1,285	—	—
Total	45,798	40,090	40,000
Long-term debt, less current portion:			
Term loans	360,000	360,000	485,000
Senior notes	965,000	965,000	965,000
Other	6,684	4,235	4,620
Total	1,331,684	1,329,235	1,454,620
Total debt	\$1,377,482	\$1,369,325	\$1,494,620

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

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

On January 10, 2013, the Company's India subsidiary amended its term loan to increase the maximum limit to approximately \$5,900, subject to foreign currency fluctuations between the Indian rupee and the U.S. dollar. The interest rate on this facility was 11.5% as of March 30, 2013. The Company's India subsidiary had \$5,021, \$4,235 and \$4,620, outstanding on this line as of March 30, 2013, June 30, 2012, and March 31, 2012, respectively.

On January 10, 2013, the Company's India subsidiary amended its short-term credit line to increase the aggregate amount to approximately \$6,400, subject to foreign currency fluctuations between the Indian rupee and the U.S.

dollar. The interest rate on this facility was 11.5% as of both March 30, 2013 and June 30, 2012. The credit line expires after 180 days but can be extended by mutual agreement of the parties. The Company's India subsidiary had \$4,513 and \$90 outstanding on this line of credit as of March 30, 2013 and June 30, 2012, respectively, and no borrowings outstanding on this line of credit as of March 31, 2012.

As of March 30, 2013, the Company also has certain capital lease obligations totaling \$2,948.

On July 23, 2009, the Company entered into an accounts receivable securitization program (the "Securitization Program") with several of its wholly owned subsidiaries and Bank of America Securities, LLC ("Bank of America").
The

18

Table of Contents

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

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

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

NOTE 8 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

All derivative instruments are managed on a consolidated basis to efficiently net exposures and thus take advantage of any natural offsets. The absolute value of the notional amounts of derivative contracts for the Company approximated \$481,800, \$415,600 and \$423,500 at March 30, 2013, June 30, 2012, and March 31, 2012, respectively. Gains and losses related to the derivative instruments are expected to be largely offset by gains and losses on the original underlying asset or liability. The Company does not use derivative financial instruments for speculative purposes.

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

Interest Rate Hedging

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

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

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

Table of Contents

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

At March 30, 2013, the Company also held forward interest rate swap contracts to hedge probable, but not firmly committed, future transactions associated with its debt.

During the quarter ended March 30, 2013, the Company entered into forward interest rate swap agreements related to forecasted debt issuances with a notional amount totaling \$300,000. These agreements hedge the variability in future probable interest payments due to changes in the benchmark interest rate between the date the swap agreements were entered into and the expected date of future debt issuances in fiscal 2013, at which time these agreements are intended to be settled.

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

Foreign Currency Contracts

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

The Company's foreign currency hedging program includes cash flow hedges. The Company enters into foreign currency forward contracts in order to hedge the impact of fluctuations of foreign exchange on expected future purchases and related payables denominated in a foreign currency. These forward contracts have a maximum maturity date of 15 months. In addition, the Company enters into foreign currency forward contracts in order to hedge the impact of fluctuations of foreign exchange on expected future sales and related receivables denominated in a foreign currency. These forward contracts also have a maximum maturity date of 15 months. The Company did not have any foreign currency put or call contracts as of March 30, 2013.

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

Table of Contents

The effects of derivative instruments on the Company's condensed consolidated balance sheets as of March 30, 2013, June 30, 2012, and March 31, 2012, and on the Company's income and OCI for the three and nine months ended March 30, 2013, and March 31, 2012, were as follows (amounts presented exclude any income tax effects):

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

		Asset Derivatives		
		Balance Sheet Presentation	Fair Value	
			March 30, 2013	June 30, 2012
				March 31, 2012
Hedging derivatives:				
Foreign currency forward contracts	Other current assets		\$8,564	\$578
Total hedging derivatives			\$8,564	\$578
Non-hedging derivatives:				
Foreign currency forward contracts	Other current assets		\$684	\$54
Total non-hedging derivatives			\$684	\$54
		Liability Derivatives		
		Balance Sheet Presentation	Fair Value	
			March 30, 2013	June 30, 2012
				March 31, 2012
Hedging derivatives:				
Foreign currency forward contracts	Accrued liabilities		\$571	\$5,585
Interest rate swap agreements	Other non-current liabilities		13,306	14,706
Total hedging derivatives			\$13,877	\$20,291
Non-hedging derivatives:				
Foreign currency forward contracts	Accrued liabilities		\$370	\$614
Total non-hedging derivatives			\$370	\$614

Effects of Derivative Instruments on Income and OCI for the three months ended March 30, 2013, and March 31, 2012

Derivatives in Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in OCI on Derivative (Effective Portion)		Location and Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location and Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)				
	March 30, 2013	March 31, 2012		March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012	
T-Locks	\$—	\$—	Interest, net	\$91	\$91	Interest, net	\$—	\$—
Interest rate swap agreements	1,025	190	Interest, net	(1,236)	(1,196)	Interest, net	—	—
Foreign currency forward contracts	2,499	3,009	Net sales	189	57	Net sales	—	—

Edgar Filing: PERRIGO CO - Form 10-Q

			Cost of sales	(295)	(1,067)	Cost of sales(1	) (32)
			Interest, net	44	56		
			Other income	633	577		
			(expense), net				
Total	\$3,524	\$3,199		\$(574)	\$(1,482)		\$(1) \$(32)

The Company also has forward foreign currency contracts that are not designated as hedging instruments and recognizes the gain/(loss) associated with these contracts in other income (expense), net. For the three months ended March 30, 2013, and March 31, 2012, the Company recorded a gain of \$1,005 and \$1,145, respectively, related to these contracts. The net hedge result offsets the revaluation of the underlying balance sheet exposure, which is also recorded in other income (expense), net.

Table of Contents

Effects of Derivative Instruments on Income and OCI for the nine months ended March 30, 2013, and March 31, 2012

Derivatives in Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in OCI on Derivative (Effective Portion)		Location and Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location and Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)				
	March 30, 2013	March 31, 2012		March 30, 2013	March 31, 2012			
T-Locks	\$—	\$—	Interest, net	\$273	\$273	Interest, net	\$—	\$—
Interest rate swap agreements	1,925	(5,695)	Interest, net	(3,679)	(3,316)	Interest, net	—	—
Foreign currency forward contracts	9,310	(5,100)	Net sales	(80)	(93)	Net sales	—	(20)
			Cost of sales	(2,808)	1,287	Cost of sales	(66)	655
			Interest, net	(109)	90			
			Other income (expense), net	1,774	(1,830)			
Total	\$11,235	\$(10,795)		\$(4,629)	\$(3,589)		\$(66)	\$635

The Company also has forward foreign currency contracts that are not designated as hedging instruments and recognizes the gain/(loss) associated with these contracts in other income (expense), net. For the nine months ended March 30, 2013, and March 31, 2012, the Company recorded a gain of \$1,371 and a loss of \$1,354, respectively, related to these contracts. The net hedge result offsets the revaluation of the underlying balance sheet exposure, which is also recorded in other income (expense), net.

NOTE 9 – SHAREHOLDERS' EQUITY

The Company issued 43 and 118 shares related to the exercise and vesting of share-based compensation during the third quarter of fiscal 2013 and 2012, respectively. Year-to-date, the Company issued 648 and 720 shares related to the exercise and vesting of share-based compensation during fiscal 2013 and 2012, respectively.

The Company does not currently have a common stock repurchase program, but does repurchase shares in private party transactions from time to time. Private party transactions are shares repurchased in connection with the vesting of restricted stock awards to satisfy employees' minimum statutory tax withholding obligations. During the three months ended March 30, 2013, the Company repurchased 1 share of its common stock for \$162 in private party transactions. The Company did not repurchase any shares in private party transactions during the third quarter of fiscal 2012. During the nine months ended March 30, 2013, the Company repurchased 111 shares of its common stock for \$12,321 in private party transactions. During the nine months ended March 31, 2012, the Company repurchased 88 shares of its common stock for \$7,954 in private party transactions. All common stock repurchased by the Company becomes authorized but unissued stock and is available for reissuance in the future for general corporate purposes.

NOTE 10 – INCOME TAXES

The effective tax rate on income was 30.1% and 14.0% for the third quarter of fiscal 2013 and 2012, respectively. The effective rate on income was 27.5% and 22.2% for the first nine months of fiscal 2013 and 2012, respectively. The effective tax rate was favorably affected by a reduction in the reserves for uncertain tax liabilities, recorded in accordance with ASC Topic 740 "Income Taxes", in the amount of \$7,452 and \$26,064 for the first nine months of fiscal 2013 and 2012, respectively, related to various audit resolutions and statute expirations. Foreign source income before tax for the third quarter of fiscal 2013 was 28% of pre-tax earnings, down from 39% in the same period of fiscal 2012. Foreign source income before tax for the first nine months of fiscal 2013 was 35% of total income before tax, down from 42% in the same period for fiscal 2012. The effective tax rate for the third quarter of fiscal 2013 included the impact of the newly enacted American Taxpayer Relief Act of 2012 (the "Act"). Among other provisions, the Act provided for the restoration of the research and development credit, applied retroactively to January 1, 2012. Accordingly, tax expense in the third quarter of fiscal 2013 was reduced by approximately \$1,260.

Table of Contents

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

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

The total amount of unrecognized tax benefits was \$118,422 and \$108,520 as of March 30, 2013 and June 30, 2012, respectively.

The total amount accrued for interest and penalties in the liability for uncertain tax positions was \$23,402 and \$20,005 as of March 30, 2013 and June 30, 2012, respectively.

Table of Contents

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Eltroxin

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

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

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

U.S. Securities Litigation

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

On June 15, 2009, the Court appointed several other purported shareholders of the Company, rather than Warner, as co-lead plaintiffs (the "Original Co-Lead Plaintiffs"). On July 31, 2009, these Original Co-Lead Plaintiffs filed an amended complaint. The amended complaint dropped all claims against the individual defendants other than Joseph Papa and Judy Brown, and added a "control person" claim under Section 20(a) of the Exchange Act against the members of the Company's Audit Committee. The amended complaint asserted many of the same claims and

allegations as the original pleading. It also alleged that the Company should have disclosed, prior to February 3, 2009, that Lehman had provided the allegedly inflated valuation of the ARS that the Company adopted in its Form 10-Q filing for the first quarter of fiscal 2009, which was filed with the SEC on November 6, 2008. The amended complaint also alleged that some portion of the write-down of the value of the ARS that the Company recognized in the second quarter of fiscal 2009 should have been taken in the prior quarter, immediately following Lehman's bankruptcy filing.

On September 28, 2009, the defendants filed a motion to dismiss all claims against all defendants. On September 30, 2010, the Court granted in part and denied in part the motion to dismiss. The Court dismissed the "control person" claims against the members of the Company's Audit Committee, but denied the motion to dismiss as to the remaining claims and defendants. On October 29, 2010, the defendants filed a new motion to dismiss the amended complaint on the grounds that the Original Co-Lead Plaintiffs (who were the only plaintiffs named in the amended complaint) lacked standing to sue under the U.S. securities laws following a then-recent decision of the United States Supreme Court holding that Section 10(b) of the

Table of Contents

Exchange Act does not apply extraterritorially to the claims of foreign investors who purchased or sold securities on foreign stock exchanges. On December 23, 2010, a purported shareholder named Harel Insurance, Ltd. ("Harel") filed a motion to intervene as an additional named plaintiff. On January 10, 2011, the original plaintiff, Warner, filed a motion renewing his previously withdrawn motion to be appointed as Lead Plaintiff to replace the Original Co-Lead Plaintiffs.

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

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

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

Although the Company believes that it has meritorious defenses to this lawsuit, the Company engaged in settlement discussions with counsel for the Co-Lead Plaintiffs in an effort to move the matter to a quicker resolution and avoid the costs and distractions of protracted litigation. As a result of these discussions, the Company and the Co-Lead Plaintiffs reached an agreement in principle to settle the case with payment by the Company's insurer of \$1,787 to cover all costs of the settlement, subject to Court approval. On December 27, 2012, the Company and the Co-Lead Plaintiffs filed a Stipulation of Settlement and a motion for preliminary approval of the proposed class action settlement. On January 28, 2013, the Court preliminarily approved the proposed class action settlement and ordered that notice of the proposed settlement be provided to the members of the proposed shareholder class and set a deadline for class members either to object to the settlement or to exclude themselves (or "opt out") of the settlement class. The Court also scheduled a fairness hearing for May 17, 2013 to determine whether the settlement is fair, reasonable and adequate and thus merits final approval. There can be no assurance that the proposed settlement will be approved by the Court. Regardless of whether the proposed settlement is approved, the Company believes the resolution of this matter will not have a material adverse effect on its financial condition and results of operations as reported in the accompanying consolidated financial statements.

Ramat Hovav

In March and June of 2007, lawsuits were filed by three separate groups against both the State of Israel and the Council of Ramat Hovav in connection with waste disposal and pollution from several companies, including the Company, that have operations in the Ramat Hovav region of Israel. These lawsuits were subsequently consolidated into a single proceeding in the District Court of Beer-Sheva. The Council of Ramat Hovav, in June 2008, and the State of Israel, in November 2008, asserted third party claims against several companies, including the Company. The pleadings allege a variety of personal injuries arising out of the alleged environmental pollution. Neither the plaintiffs nor the third-party claimants were required to specify a maximum amount of damages, but the pleadings allege damages in excess of \$72,500, subject to foreign currency fluctuations between the Israeli shekel and the U.S. dollar. On January 9, 2013, the District Court of Beer-Sheva ruled in favor of the Company. On February 20, 2013, the plaintiffs filed an appeal to the Supreme Court. While the Company intends to vigorously defend against these claims if appealed, the Company cannot reasonably predict at this time the outcome or the liability, if any, associated

with these claims.

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

NOTE 12 – SEGMENT INFORMATION

The Company has four reportable segments, aligned primarily by type of product: Consumer Healthcare, Nutritionals, Rx Pharmaceuticals and API, along with an Other category. The accounting policies of each segment are the same as those described in the summary of significant accounting policies set forth in Note 1. The majority of corporate expenses, which

25

Table of Contents

generally represent shared services, are charged to operating segments as part of a corporate allocation. Unallocated expenses relate to certain corporate services that are not allocated to the segments.

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

	Consumer Healthcare	Nutritionals	Rx Pharmaceuticals	API	Other	Unallocated expenses	Total
Three Months Ended March 30, 2013							
Net sales	\$536,775	\$133,344	\$189,410	\$41,114	\$19,182	\$—	\$919,825
Operating income	\$95,921	\$6,965	\$73,419	\$11,728	\$1,642	\$(11,069)	\$178,606
Amortization of intangibles	\$5,030	\$7,310	\$11,351	\$498	\$423	\$—	\$24,612
Total assets	\$1,724,585	\$951,113	\$1,433,788	\$278,957	\$107,445	\$—	\$4,495,888

Three Months Ended March 31, 2012							
Net sales	\$448,848	\$117,683	\$155,591	\$36,951	\$18,944	\$—	\$778,017
Operating income	\$79,383	\$1,845	\$67,257	\$10,462	\$846	\$(13,723)	\$146,070
Amortization of intangibles	\$2,421	\$6,637	\$8,574	\$490	\$410	\$—	\$18,532
Total assets	\$1,658,231	\$952,761	\$1,066,559	\$266,786	\$95,717	\$—	\$4,040,054

	Consumer Healthcare	Nutritionals	Rx Pharmaceuticals	API	Other	Unallocated expenses	Total
Nine Months Ended March 30, 2013							
Net sales	\$1,526,479	\$358,705	\$514,893	\$118,387	\$54,130	\$—	\$2,572,594
Operating income	\$261,287	\$18,008	\$205,982	\$38,867	\$2,730	\$(27,838)	\$499,036
Amortization of intangibles	\$12,163	\$21,920	\$28,210	\$1,442	\$1,223	\$—	\$64,958
Nine Months Ended March 31, 2012							
Net sales	\$1,331,806	\$365,691	\$460,414	\$127,347	\$56,224	\$—	\$2,341,482
Operating income	\$230,822	\$13,638	\$161,716	\$36,370	\$2,055	\$(36,311)	\$408,290
Amortization of intangibles	\$6,886	\$22,739	\$23,896	\$1,507	\$1,285	\$—	\$56,313

NOTE 13 – RESTRUCTURING

In the third quarter of fiscal 2012, the Company made the decision to restructure its workforce and cease all remaining manufacturing production at its Florida facility. This restructuring was completed at the end of the fourth quarter of fiscal 2012. This facility manufactured the Company's oral electrolyte solution products that are part of the Nutritionals reporting segment. In connection with the restructuring, the Company transitioned production to a more

efficient, service-oriented supply chain. As a result of this restructuring plan, the Company determined that the carrying value of certain fixed assets at the location was not fully recoverable. Accordingly, the Company incurred a non-cash impairment charge of \$6,298 and \$148 in its Nutritionals segment in the third and fourth quarters of fiscal 2012, respectively, to reflect the difference between carrying value and the estimated fair value of the affected assets. In addition, the Company recorded a charge of \$783 and \$965 in the third and fourth quarters of fiscal 2012, respectively, related to employee termination benefits for 141 employees. The Company does not expect to incur any additional charges related to this restructuring plan. The activity of the restructuring reserve is detailed in the following table:

26

Table of Contents

	Fiscal 2012 Restructuring Employee Termination	
Balance at March 31, 2012	\$783	
Additions	965	
Payments	(87)
Balance at June 30, 2012	1,661	
Payments	(1,661)
Balance at March 30, 2013	\$—	

NOTE 14 – COLLABORATION AGREEMENT

The Company actively partners with other pharmaceutical companies to collaboratively develop, manufacture and market certain products or groups of products. These types of agreements are not uncommon in the pharmaceutical industry. The Company may choose to enter into these types of agreements to, among other things, leverage its or others' scientific research and development expertise or utilize its extensive marketing and distribution resources. Terms of the various collaboration agreements may require the Company to make or receive milestone payments upon the achievement of certain product research and development objectives and pay or receive royalties on future sale, if any, of commercial products resulting from the collaboration. Milestone payments and up-front payments made are generally recorded as research and development expenses if the payments relate to drug candidates that have not yet received regulatory approval. Milestone payments and up-front payments made related to approved drugs will generally be capitalized and amortized to cost of goods sold over the economic life of the product. Royalties received are generally reflected as revenues and royalties paid are generally reflected as cost of goods sold. The Company has entered into a number of collaboration agreements in the ordinary course of business. Although the Company does not consider these arrangements to be material, the following is a brief description of a notable agreement entered into during fiscal 2013:

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

NOTE 15 – SUBSEQUENT EVENTS

Amendment to Credit Agreement

On May 6, 2013, the Company completed a Third Amendment to its 2011 Credit Agreement to conform the terms and conditions of the agreement to the terms and conditions customarily found in credit agreements of investment-grade borrowers, including but not limited to: i) limitation on liens that can be imposed on the Company, ii) elimination of collateral arrangements and subsidiary guaranties and iii) modification of covenant baskets, cross-default thresholds and subsidiary borrowing limitations.

Business Acquisition

On April 1, 2013, the Company completed the acquisition of 100% of the shares of privately-held Velcera, Inc. ("Velcera") for approximately \$160,000, net of cash acquired. As of the end of the third quarter of fiscal 2013, the Company had incurred \$1,100 of acquisition costs, all of which were expensed in operations in the third quarter of fiscal 2013. Headquartered in Yardley, Pennsylvania, Velcera, through its FidoPharm subsidiary, is a leading companion pet health product company committed to providing consumers with best-in-class companion pet health products that contain the same active ingredients as branded veterinary products, but at a significantly lower cost. FidoPharm products, including the PetArmor® flea

Table of Contents

and tick products, are available at major retailers nationwide, offering consumers the benefits of convenience and cost savings to ensure the highest quality care for their pets. The acquisition complements the recently acquired Sergeant's business and further expands the Company's Consumer Healthcare pet healthcare category.

The Company will account for the acquisition as a business combination under Rule 11-01(d) of the Regulation S-X and ASC 805, Business Combinations. The Company is in the process of determining the fair value of the assets acquired and liabilities assumed at the date of acquisition, and is in the preliminary stages of the valuation process. Goodwill will be determined by the excess of the fair value of the consideration conveyed to the seller over the fair value of the net assets acquired. The Company expects the majority of the purchase price to be recorded as identifiable intangible assets and goodwill. The pro forma impact of the Velcera acquisition on the Company's fiscal 2013 results of operations is not expected to be material.

Table of Contents

Item 2.

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

EXECUTIVE OVERVIEW

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

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

The Company's fiscal year is a 52- or 53-week period, which ends the Saturday on or about June 30. An extra week is required approximately every six years in order to re-align the Company's fiscal reporting dates with the actual calendar months. This extra week occurred in the Company's second quarter of fiscal 2012. Fiscal 2013 is a 52-week year and included 39 weeks of operations in the year-to-date results. Fiscal 2012 was a 53-week year and included 40 weeks of operations in the year-to-date results. Using a weekly average, the extra week of operations is estimated to have contributed approximately 2.5% in net sales for the year-to-date results of fiscal 2012. This factor should be considered when comparing the Company's year-to-date fiscal 2013 financial results to the prior year period.

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

The Consumer Healthcare ("CHC") segment is the world's largest store brand manufacturer of over-the-counter ("OTC") pharmaceutical products. Major product categories include analgesics, cough/cold/allergy/sinus, gastrointestinal, smoking cessation, and secondary product categories that include feminine hygiene, diabetes care and dermatological care. In addition, the recent acquisitions of Sergeant's Pet Care Products, Inc. ("Sergeant's") and Velcera, Inc. ("Velcera"), which closed in the Company's second and fourth fiscal quarters, respectively, expanded the Company's product portfolio into the pet healthcare category.

The CHC business markets products that are comparable in quality and effectiveness to national brand products. The cost to the retailer of a store brand product is significantly lower than that of a comparable nationally advertised brand-name product. Generally, the retailers' dollar profit per unit of store brand product is greater than the dollar profit per unit of the comparable national brand product. The retailer, therefore, can price a store brand product below the competing national brand product and realize a greater profit margin. The consumer benefits by receiving a high quality product at a price below the comparable national brand product. Therefore, the Company's business model

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

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

Table of Contents

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

The Rx Pharmaceuticals segment develops, manufactures and markets a portfolio of generic prescription ("Rx") drugs primarily for the U.S. market. The Company defines this portfolio as predominantly "extended topical" and specialty as it encompasses a broad array of topical dosage forms such as creams, ointments, lotions, gels, shampoos, foams, suppositories, sprays, liquids, suspensions, solutions and powders. The portfolio also includes select controlled substances, injectables, hormones, oral liquids and oral solid dosage forms. As a result of the recent acquisition of Rosemont Pharmaceuticals Ltd. ("Rosemont") in the third quarter of fiscal 2013, the Company expanded its Rx product offering into the U.K. and Europe. Rosemont is a specialty and generic prescription pharmaceutical company focused on the manufacturing and marketing of oral liquid formulations. The strategy in the Rx Pharmaceuticals segment is to be the first to market with those new products that are exposed to less competition because they have formulations that are more difficult and costly to develop and launch (e.g., extended topicals or products containing controlled substances). In addition, the Rx Pharmaceuticals segment offers OTC products through the prescription channel (referred to as "ORx®" marketing). ORx® products are OTC products that are available for pharmacy fulfillment and healthcare reimbursement when prescribed by a physician. The Company offers over 100 ORx® products that are reimbursable through many health plans and Medicaid and Medicare programs. ORx® products offer consumers safe and effective remedies that provide an affordable alternative to the higher out-of-pocket costs of traditional OTC products.

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

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

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

Seasonality – The Company's sales of OTC pharmaceutical products are subject to the seasonal demands for cough/cold/flu and allergy products. In addition, with the Sergeant's acquisition discussed below under the heading Events Impacting Future Results, the Company's pet healthcare products are subject to the seasonal demand for flea and tick products, which typically peaks during the warmer weather months. Accordingly, operating results for the nine months ended March 30, 2013, are not necessarily indicative of the results that may be expected for a full fiscal year.

Table of Contents

Consolidated Results

	Three Months Ended		Increase/(Decrease)	% Change	
	March 30, 2013	March 31, 2012			
Net sales	\$919,825	\$778,017	\$141,808	18.2	%
Gross profit	\$331,361	\$279,273	\$52,088	18.7	%
Gross profit %	36.0	% 35.9	% 0.1	%	
Operating expenses	\$152,755	\$133,203	\$19,552	14.7	%
Operating expenses %	16.6	% 17.1	% (0.5))%	
Operating income	\$178,606	\$146,070	\$32,536	22.3	%
Operating income %	19.4	% 18.8	% 0.6	%	
Interest and other expense, net	\$18,519	\$11,449	\$7,070	61.8	%
Income taxes	\$48,163	\$18,894	\$29,269	154.9	%
Net income	\$111,924	\$115,727	\$(3,803)	(3.3))%

Current Quarter Results – The increase in net sales for the third quarter of fiscal 2013 was driven primarily by new product sales of \$41,000, \$39,600 of net sales attributable to the Sergeant's and Rosemont acquisitions, and an increase in sales volumes of existing products in all segments. Third quarter fiscal 2013 gross profit also increased in line with the increase in net sales, and operating expenses included incremental expenses attributable to the Sergeant's and Rosemont acquisitions. Third quarter fiscal 2012 operating expenses included approximately \$7,100 of restructuring charges related to the Company's Florida location, which closed in the fourth quarter of fiscal 2012.

Fiscal 2013 other expense included a loss of \$1,608 recognized in conjunction with the sale of the Company's auction rate securities ("ARS").

	Nine Months Ended		Increase/(Decrease)	% Change	
	March 30, 2013	March 31, 2012			
Net sales	\$2,572,594	\$2,341,482	\$231,112	9.9	%
Gross profit	\$923,795	\$801,727	\$122,068	15.2	%
Gross profit %	35.9	% 34.2	% 1.7	%	
Operating expenses	\$424,759	\$393,437	\$31,322	8.0	%
Operating expenses %	16.5	% 16.8	% (0.3))%	
Operating income	\$499,036	\$408,290	\$90,746	22.2	%
Operating income %	19.4	% 17.4	% 2.0	%	
Interest and other expense, net	\$52,749	\$40,641	\$12,108	29.8	%
Income taxes	\$122,828	\$81,725	\$41,103	50.3	%
Net income	\$323,459	\$285,924	\$37,535	13.1	%

Current Year-to-Date Results – The increase in year-to-date fiscal 2013 net sales was driven primarily by \$101,700 of net sales attributable to the Rosemont, Sergeant's, Paddock Laboratories, Inc. ("Paddock") and CanAm Care, LLC ("CanAm") acquisitions and new product sales of \$91,900.

Fiscal 2013 gross profit increased in line with the net sales increase. Gross profit for fiscal 2012 was negatively impacted by the one-time charge to cost of sales of \$27,179 as a result of the step-up in value of inventory acquired and sold during the first quarter of fiscal 2012 related to the Paddock acquisition, which was larger than the charges to cost of sales of \$7,700 and \$1,900 as a result of the step-ups in value of inventory acquired and sold during the second and third quarters of fiscal 2013 related to the Sergeant's and Rosemont acquisitions, respectively. In addition to these inventory step-up charges, the Company recorded \$9,400 of acquisition and severance charges related to the Paddock

acquisition and \$7,100 of restructuring charges, as discussed above, during fiscal 2012, and recorded \$1,500 of severance costs related to the Cobrek Pharmaceuticals,

31

Table of Contents

Inc. ("Cobrek") acquisition and \$4,000 in acquisition costs related to the Sergeant's and Rosemont acquisitions during fiscal 2013.

Fiscal 2013 other expense included a loss of \$3,049 recognized in conjunction with the Cobrek acquisition as a result of remeasuring the Company's initial 18.5% noncontrolling interest to fair value, along with a loss of \$1,608 related to the sale of the Company's ARS.

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

Events Impacting Future Results

Subsequent to the third quarter of fiscal 2013, on April 1, 2013, the Company completed the acquisition of 100% of the shares of privately-held Velcera for approximately \$160,000, net of cash acquired. Headquartered in Yardley, Pennsylvania, Velcera, through its FidoPharm subsidiary, is a leading companion pet health product company committed to providing consumers with best-in-class companion pet health products that contain the same active ingredients as branded veterinary products, but at a significantly lower cost. FidoPharm products, including the PetArmor® flea and tick products, are available at major retailers nationwide, offering consumers the benefits of convenience and cost savings to ensure the highest quality care for their pets. The acquisition complements the recently acquired Sergeant's business and further expands the Company's Consumer Healthcare pet healthcare category. The acquisition is expected to add approximately \$60,000 in net sales in the first full fiscal year of combined operations.

On February 11, 2013, the Company acquired 100% of the shares of privately-held Rosemont for approximately \$283,000 in cash. Based in Leeds, U.K., Rosemont is a specialty and generic prescription pharmaceutical company focused on the manufacturing and marketing of oral liquid formulations. The acquisition expanded the global presence of the Company's Rx product offering into the U.K. and Europe and is expected to add approximately \$60,000 in net sales in the first full fiscal year of combined operations.

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

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

In January 2012, a branded competitor in the OTC market began to experience certain quality issues at one of its facilities, causing it to temporarily shut down the facility. Due to this situation, the Company experienced an increase in demand for its OTC products during the second half of fiscal 2012 and the first nine months of 2013, which had a positive impact on the Consumer Healthcare segment's net sales and results of operations. At this time, the branded

competitor is in the process of returning to the market with certain products. The impact on the Company's future results will largely be determined by the extent of the branded competitor's strategies regarding supply chain, manufacturing and marketing as well as the pace at which they return to the market, each of which may have an impact on the sales for OTC products.

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

Table of Contents

competitor will return to market, the extent of consumers' reacceptance of the branded products, or the extent of the branded competitor's marketing activities.

RESULTS OF OPERATIONS

Consumer Healthcare

	Three Months Ended		Increase/(Decrease) % Change		
	March 30, 2013	March 31, 2012			
Net sales	\$536,775	\$448,848	\$ 87,927	19.6	%
Gross profit	\$176,646	\$140,417	\$ 36,229	25.8	%
Gross profit %	32.9	% 31.3	% 1.6	%	
Operating expenses	\$80,725	\$61,034	\$ 19,691	32.3	%
Operating expenses %	15.0	% 13.6	% 1.4	%	
Operating income	\$95,921	\$79,383	\$ 16,538	20.8	%
Operating income %	17.9	% 17.7	% 0.2	%	

The increase in net sales for the third quarter of fiscal 2013 was driven primarily by an increase in sales volumes of existing products of \$53,600, primarily in the contract manufacturing, cough/cold and analgesics categories, \$31,400 of incremental sales attributable to the Sergeant's acquisition and new product sales of \$16,600, mainly in the cough/cold and smoking cessation categories. Existing product sales increased due primarily to a stronger cough/cold/flu season as compared to the prior year. These increases were partially offset by a decline of \$8,700 in sales of existing products in certain other product categories and \$3,900 in discontinued products.

Third quarter gross profit for fiscal 2013 increased due primarily to gross profit attributable to the net increase in sales of existing products, incremental gross profit attributable to the Sergeant's acquisition and contribution from new product sales. The third quarter gross profit percentage increased 160 basis points in fiscal 2013 compared to fiscal 2012 due primarily to favorable product mix and higher production efficiencies.

Third quarter operating expenses for fiscal 2013 increased due primarily to approximately \$12,000 of incremental operating expenses from the acquisition of Sergeant's. In addition, selling and distribution expenses increased approximately \$4,500 on higher sales volume.

	Nine Months Ended		Increase/(Decrease) % Change		
	March 30, 2013	March 31, 2012			
Net sales	\$1,526,479	\$1,331,806	\$ 194,673	14.6	%
Gross profit	\$484,735	\$418,588	\$ 66,147	15.8	%
Gross profit %	31.8	% 31.4	% 0.4	%	
Operating expenses	\$223,448	\$187,766	\$ 35,682	19.0	%
Operating expenses %	14.6	% 14.1	% 0.5	%	
Operating income	\$261,287	\$230,822	\$ 30,465	13.2	%
Operating income %	17.1	% 17.3	% (0.2)%	

Year-to-date net sales for fiscal 2013 increased due primarily to an increase in U.S. sales of existing products of \$92,600, primarily in the contract manufacturing, cough/cold and smoking cessation categories, \$74,400 of net sales attributable to the Sergeant's and CanAm acquisitions and new product sales of \$42,200, mainly in the cough/cold, dermatological and gastrointestinal product categories. Existing product sales in the U.S. increased due primarily to a stronger cough/cold/flu season as compared to the prior year. The Company's international locations, primarily the U.K., also experienced an increase of \$13,500 in their existing product sales due primarily to smoking cessation and

contract manufacturing sales growth in European markets. These increases were partially offset by a decline of \$14,700 in discontinued products and \$12,400 in sales of existing products in certain other product categories.

Table of Contents

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

Year-to-date operating expenses included approximately \$25,000 of incremental operating expenses from the acquisitions of Sergeant's and CanAm. In addition to the increase due to acquisitions, selling and distribution expenses increased \$7,000 on higher sales volume.

Nutritionals

	Three Months Ended		Increase/(Decrease) % Change		
	March 30, 2013	March 31, 2012			
Net sales	\$133,344	\$117,683	\$15,661	13.3	%
Gross profit	\$30,976	\$30,350	\$626	2.1	%
Gross profit %	23.2	% 25.8	% (2.6)%	
Operating expenses	\$24,011	\$28,505	\$(4,494	)	(15.8) %
Operating expenses %	18.0	% 24.2	% (6.2)%	
Operating income	\$6,965	\$1,845	\$5,120	277.5	%
Operating income %	5.2	% 1.6	% 3.6	%	

Third quarter net sales for fiscal 2013 increased due primarily to an increase in sales of existing products of \$10,800, across all product categories, along with new product sales of \$5,100. Existing product sales in the VMS category increased due to new customers, while sales in the infant nutritionals category increased due primarily to higher demand for the Company's OES products as a result of the stronger cough/cold/flu season as compared to last year.

Third quarter gross profit for fiscal 2013 was relatively flat compared to fiscal 2012 despite increased net sales due primarily to higher production inefficiencies, along with product mix. These factors also negatively impacted the gross profit percentage for the quarter.

Third quarter operating expenses for fiscal 2013 decreased due primarily to the absence of \$7,100 of restructuring charges incurred in the third quarter of fiscal 2012 related to the closure of the Company's Florida location. See Note 13 to the Notes to Condensed Consolidated Statements for further details on this restructuring plan. This decrease was partially offset by higher selling expenses of \$2,200 due primarily to higher spending on sales and marketing promotions.

	Nine Months Ended		Increase/(Decrease) % Change		
	March 30, 2013	March 31, 2012			
Net sales	\$358,705	\$365,691	\$(6,986	)	(1.9) %
Gross profit	\$86,956	\$88,149	\$(1,193	)	(1.4) %
Gross profit %	24.2	% 24.1	% 0.1	%	
Operating expenses	\$68,948	\$74,511	\$(5,563	)	(7.5) %
Operating expenses %	19.2	% 20.4	% (1.2)%	
Operating income	\$18,008	\$13,638	\$4,370	32.0	%
Operating income %	5.0	% 3.7	% 1.3	%	

Year-to-date net sales for fiscal 2013 decreased due primarily to the impact of the extra week of operations in the prior year period and a decline in sales of existing products of \$9,200, partially offset by new product sales of \$11,500. Net sales of existing products were negatively impacted by the shutdown of the Company's Vermont manufacturing facility for the installation of a new plastic container powder infant formula packaging line. The Company has invested approximately \$29,000 for this new state-of-the-art consumer-friendly packaging capability. In the fourth quarter of fiscal 2012, retailers increased purchases in advance of the installation of the new plastic container packaging line and the conversion of the Company's ERP

Table of Contents

system on July 1, 2012. In addition, net sales were negatively impacted by regulatory changes in one of the Company's main international markets that caused a delay in the fulfillment of international orders.

Year-to-date gross profit for fiscal 2013 decreased in line with the net sales decrease. Year-to-date operating expenses for fiscal 2013 decreased due primarily to the absence of the aforementioned restructuring charges related to the closure of the Company's Florida location, partially offset by higher selling expenses as a result of higher sales and marketing promotional spending.

Rx Pharmaceuticals

	Three Months Ended		Increase/(Decrease) % Change		
	March 30, 2013	March 31, 2012			
Net sales	\$189,410	\$155,591	\$ 33,819	21.7	%
Gross profit	\$96,516	\$83,333	\$ 13,183	15.8	%
Gross profit %	51.0	% 53.6	% (2.6)%	
Operating expenses	\$23,097	\$16,076	\$ 7,021	43.7	%
Operating expenses %	12.2	% 10.3	% 1.9	%	
Operating income	\$73,419	\$67,257	\$ 6,162	9.2	%
Operating income %	38.8	% 43.2	% (4.4)%	

The increase in net sales for the third quarter of fiscal 2013 was driven primarily by new product sales of \$18,200, \$8,200 of net sales attributable to the February 11, 2013 acquisition of Rosemont, and existing product sales of \$7,400. Existing product sales were higher year-over-year due to increased demand on certain products.

Third quarter gross profit for fiscal 2013 increased due primarily to gross profit contribution from new products, incremental gross profit attributable to the Rosemont acquisition and gross profit attributable to the increase in existing product sales. These increases were partially offset by a charge of \$1,900 to cost of sales as a result of the step-up of inventory acquired and sold during the third quarter of fiscal 2013 related to the Rosemont acquisition. The third quarter fiscal 2013 gross profit percentage decreased due primarily to product mix, along with the inventory step-up charge related to Rosemont.

Third quarter operating expenses for fiscal 2013 increased in line with the net sales increase and included \$2,400 of incremental operating expenses from the Rosemont acquisition.

	Nine Months Ended		Increase/(Decrease) % Change		
	March 30, 2013	March 31, 2012			
Net sales	\$514,893	\$460,414	\$ 54,479	11.8	%
Gross profit	\$269,236	\$216,171	\$ 53,065	24.5	%
Gross profit %	52.3	% 47.0	% 5.3	%	
Operating expenses	\$63,254	\$54,455	\$ 8,799	16.2	%
Operating expenses %	12.3	% 11.8	% 0.5	%	
Operating income	\$205,982	\$161,716	\$ 44,266	27.4	%
Operating income %	40.0	% 35.1	% 4.9	%	

Year-to-date net sales for fiscal 2013 increased due primarily to new product sales of \$35,900, an additional month of net sales of \$19,100 from the July 26, 2011 acquisition of Paddock, \$8,200 of net sales attributable to the Rosemont acquisition and improved pricing on select products as compared to the prior year. These increases were partially offset by decreased volume in existing products, along with the extra week of operations in the second quarter of fiscal 2012.

Table of Contents

Year-to-date gross profit for fiscal 2013 increased due primarily to the absence of the one-time charge of \$27,179 to cost of sales as a result of the step-up of inventory acquired and sold during the first quarter of fiscal 2012 related to the Paddock acquisition, partially offset by the charge of \$1,900 to cost of sales as a result of the step-up of inventory acquired and sold during the third quarter of fiscal 2013 related to the Rosemont acquisition. The fiscal 2013 gross profit increase was also due to an additional month of gross profit contribution from the Paddock acquisition, gross profit from new product sales, incremental gross profit attributable to the Rosemont acquisition and favorable pricing dynamics on select products as compared to the prior year. These increases were partially offset by lower gross profit contribution due to decreased volume and pricing on certain existing products. The year-to-date gross profit percentage increased 530 basis points for fiscal 2013 compared to fiscal 2012 due primarily to the absence of the inventory step-up charge related to the Paddock acquisition discussed above.

Year-to-date operating expenses for fiscal 2013 increased due primarily to an additional month of operating expenses of \$2,800 attributable to the Paddock acquisition and \$2,400 of incremental operating expenses from the Rosemont acquisition. Fiscal 2013 operating expenses included \$1,500 of severance costs related to the Cobrek acquisition and a \$2,500 benefit related to a contract termination payment from a customer. Fiscal 2012 operating expenses included proceeds of \$3,500 related to the sale of pipeline development projects, which the Company sold in the first quarter of fiscal 2012 in response to the Federal Trade Commission's review of the Paddock acquisition, along with \$3,800 of severance costs related to the Paddock acquisition.

API

	Three Months Ended		Increase/(Decrease) % Change		
	March 30, 2013	March 31, 2012			
Net sales	\$41,114	\$36,951	\$ 4,163	11.3	%
Gross profit	\$20,915	\$18,675	\$ 2,240	12.0	%
Gross profit %	50.9	% 50.5	% 0.4	%	
Operating expenses	\$9,187	\$8,213	\$ 974	11.9	%
Operating expenses %	22.3	% 22.2	% 0.1	%	
Operating income	\$11,728	\$10,462	\$ 1,266	12.1	%
Operating income %	28.5	% 28.3	% 0.2	%	

Third quarter net sales for fiscal 2013 increased due primarily to \$3,700 of net sales related to a long-standing commercial agreement (the "API Agreement") that the Company has with a customer to supply an API for use in a generic finished dosage pharmaceutical product that was launched in the fourth quarter of fiscal 2012. Due to unexpected developments in that market formation, the Company's customer was able to launch its product with 180-day exclusivity status, which ended during the Company's second quarter of fiscal 2013. The Company's API operating results continued to be positively impacted by the API Agreement post-exclusivity status in the third quarter of fiscal 2013. However, the Company does not expect the positive impact of the API Agreement to be as significant in future quarters.

Third quarter gross profit and gross profit percentage for fiscal 2013 increased due primarily to the API Agreement discussed above. Third quarter operating expenses for fiscal 2013 increased due primarily to higher legal fees.

	Nine Months Ended		Increase/(Decrease) % Change		
	March 30, 2013	March 31, 2012			
Net sales	\$118,387	\$127,347	\$ (8,960)	(7.0))%
Gross profit	\$65,158	\$60,434	\$ 4,724	7.8	%
Gross profit %	55.0	% 47.5	% 7.5	%	
Operating expenses	\$26,291	\$24,064	\$ 2,227	9.3	%

Edgar Filing: PERRIGO CO - Form 10-Q

Operating expenses %	22.2	% 18.9	% 3.3	%	
Operating income	\$38,867	\$36,370	\$ 2,497	6.9	%
Operating income %	32.8	% 28.6	% 4.2	%	

36

Table of Contents

Year-to-date net sales for fiscal 2013 decreased due primarily to a decrease in existing product sales of approximately \$21,700 as a result of increased competition on select products, along with a negative impact of \$2,200 due to changes in foreign currency exchange rates. These decreases were partially offset by \$15,000 of net sales related to the API Agreement discussed above. The net sales of API are highly dependent on the level of competition in the marketplace for a specific material and the variable ordering patterns of customers on a quarter-over-quarter basis.

Year-to-date gross profit and gross profit percentage for fiscal 2013 increased compared to fiscal 2012 due primarily to the API Agreement.

Year-to-date operating expenses for fiscal 2013 increased due primarily to higher administrative costs driven by higher legal fees of \$1,500, higher employee-related expenses, and increased spending on research and development materials. These increases were partially offset by a favorable impact of \$1,100 due to changes in foreign exchange rates.

Other

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

	Three Months Ended		Increase/(Decrease) % Change		
	March 30, 2013	March 31, 2012			
Net sales	\$19,182	\$18,944	\$ 238	1.3	%
Gross profit	\$6,308	\$6,498	\$ (190)	(2.9))%
Gross profit %	32.9	% 34.3	% (1.4))%	
Operating expenses	\$4,666	\$5,652	\$ (986)	(17.4))%
Operating expenses %	24.3	% 29.8	% (5.5))%	
Operating income	\$1,642	\$846	\$ 796	94.1	%
Operating income %	8.6	% 4.5	% 4.1	%	

Third quarter net sales and gross profit for fiscal 2013 were relatively flat compared to fiscal 2012. Third quarter operating expenses for fiscal 2013 decreased due primarily to lower legal expenses.

	Nine Months Ended		Increase/(Decrease) % Change		
	March 30, 2013	March 31, 2012			
Net sales	\$54,130	\$56,224	\$ (2,094)	(3.7))%
Gross profit	\$17,710	\$18,385	\$ (675)	(3.7))%
Gross profit %	32.7	% 32.7	% —	%	
Operating expenses	\$14,980	\$16,330	\$ (1,350)	(8.3))%
Operating expenses %	27.7	% 29.0	% (1.3))%	
Operating income	\$2,730	\$2,055	\$ 675	32.8	%
Operating income %	5.0	% 3.7	% 1.3	%	

Year-to-date net sales and gross profit for fiscal 2013 decreased due primarily to unfavorable changes in foreign currency exchange rates. Year-to-date operating expenses for fiscal 2013 decreased due primarily to lower legal expenses, favorable changes in foreign currency exchange rates, and lower employee-related expenses.

Unallocated Expenses

Unallocated expenses were comprised of certain corporate services that were not allocated to the segments.

Unallocated expenses were \$11,069 for the third quarter of fiscal 2013 compared to \$13,723 for the third quarter of fiscal 2012, a decrease of 19% or \$2,654 due primarily to lower corporate development and variable incentive-related

expenses, partially offset by \$2,000 of acquisition expenses related to Rosemont.

Year-to-date unallocated expenses were \$27,838 for fiscal 2013 compared to \$36,311 for fiscal 2012, a decrease of 23% or \$8,473 due primarily to lower corporate development and variable incentive-related expenses. The decrease was also

37

Table of Contents

due to the absence of \$5,600 of acquisition expenses related to Paddock in the first quarter of fiscal 2012, partially offset by \$4,000 of acquisition expenses related to Sergeant's and Rosemont.

Interest and Other (Consolidated)

Interest expense for the third quarter was \$16,929 for fiscal 2013 and \$17,572 for fiscal 2012. Year-to-date interest expense was \$50,837 and \$47,761 for fiscal 2013 and 2012, respectively. Interest income for the third quarter was \$859 and \$921 for fiscal 2013 and 2012, respectively. Year-to-date interest income was \$3,600 and \$2,899 for fiscal 2013 and 2012, respectively.

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

During the third quarter of fiscal 2013, the Company sold its ARS for \$8,630 and recognized a loss of \$1,608 in other expense. See Note 4 of the Notes to the Condensed Consolidated Financial Statements for additional information regarding the sale of the ARS.

Income Taxes (Consolidated)

The effective tax rate on income was 30.1% and 14.0% for the third quarter of fiscal 2013 and 2012, respectively. The effective rate on income was 27.5% and 22.2% for the first nine months of fiscal 2013 and 2012, respectively. The effective tax rate was favorably affected by a reduction in the reserves for uncertain tax liabilities, recorded in accordance with ASC Topic 740 "Income Taxes", in the amount of \$7,452 and \$26,064 for the first nine months of fiscal 2013 and 2012, respectively, related to various audit resolutions and statute expirations. Foreign source income before tax for the third quarter of fiscal 2013 was 28% of pre-tax earnings, down from 39% in the same period of fiscal 2012. Foreign source income before tax for the first nine months of fiscal 2013 was 35% of total income before tax, down from 42% in the same period for fiscal 2012. The effective tax rate for the third quarter of fiscal 2013 included the impact of the newly enacted American Taxpayer Relief Act of 2012 (the "Act"). Among other provisions, the Act provided for the restoration of the research and development credit, applied retroactively to January 1, 2012. Accordingly, tax expense in the third quarter of fiscal 2013 was reduced by approximately \$1,260.

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

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

The total amount of unrecognized tax benefits was \$118,422 and \$108,520 as of March 30, 2013 and June 30, 2012, respectively.

The total amount accrued for interest and penalties in the liability for uncertain tax positions was \$23,402 and \$20,005 as of March 30, 2013 and June 30, 2012, respectively.

Financial Condition, Liquidity and Capital Resources

Cash and cash equivalents decreased \$253,453 to \$300,827 at March 30, 2013, from \$554,280 at March 31, 2012 due to the acquisitions of Sergeant's, Cobrek and Rosemont as discussed in Note 2 of the Notes to the Condensed Consolidated Financial Statements. Working capital, including cash, decreased \$137,129 to \$1,024,008 at March 30, 2013, from \$1,161,137 at March 31, 2012 due primarily to the reduced level of cash and cash equivalents, offset by additional working capital from the Sergeant's and Rosemont acquisitions.

Table of Contents

Cash and cash equivalents decreased \$301,662 to \$300,827 at March 30, 2013, from \$602,489 at June 30, 2012 due to the acquisitions of Sergeant's, Cobrek and Rosemont as discussed in Note 2 of the Notes to the Condensed Consolidated Financial Statements. Working capital, including cash, decreased \$119,182 to \$1,024,008 at March 30, 2013, from \$1,143,190 at June 30, 2012 due primarily to the reduced level of cash and cash equivalents. In addition to the cash and cash equivalents balance of \$300,827 at March 30, 2013, the Company had \$398,000 available under its revolving loan commitment and approximately \$2,800 available under its Indian credit facilities, as well as \$200,000 available under its accounts receivable securitization program described below. Cash, cash equivalents, cash flows from operations and borrowings available under the Company's credit facilities are expected to be sufficient to finance the known and/or foreseeable liquidity, capital expenditures, dividends, acquisitions and, to the extent authorized, share repurchases of the Company. From time-to-time, the Company may issue new debt or equity securities pursuant to market conditions or for strategic reasons. Although the Company's lenders have made commitments to make funds available to it in a timely fashion, if the current economic conditions worsen (or new information becomes publicly available impacting the institutions' credit rating or capital ratios), these lenders may be unable or unwilling to lend money under the Company's existing credit facilities.

	Nine Months Ended	
	March 30, 2013	March 31, 2012
Net cash from operating activities	\$380,112	\$311,620
Net cash for investing activities	\$(662,626	) \$(658,294
Net cash (for) from financing activities	\$(8,174	) \$589,514

Year-to-date net cash provided from operating activities increased by \$68,492 due primarily to increased earnings for fiscal 2013 compared to fiscal 2012.

Year-to-date net cash used for investing activities decreased by \$4,332 due primarily to the acquisitions of Sergeant's, Cobrek and Rosemont in fiscal 2013, partially offset by the acquisition of Paddock in the first quarter of fiscal 2012, as well as fewer property and equipment additions in the first nine months of fiscal 2013.

Capital expenditures for facilities and equipment were for manufacturing productivity/growth projects, quality investment projects, investments at newly acquired entities, technology infrastructure, system upgrades and the API expansion into India. Capital expenditures are anticipated to be between \$110,000 and \$140,000 for fiscal 2013, related primarily to manufacturing productivity and capacity projects, quality investment projects, investments at newly acquired entities, technology infrastructure, market driven packaging changes, system upgrades and the API expansion into India.

Year-to-date net cash used for financing activities was \$8,174 for fiscal 2013 compared to net cash provided from financing activities of \$589,514 for fiscal 2012. The decrease in cash provided from financing activities was due primarily to the absence of the net borrowings of long-term debt associated with the Credit Agreement entered into during the second quarter of fiscal 2012.

The Company does not currently have a common stock repurchase program, but does repurchase shares in private party transactions from time to time. Private party transactions are shares repurchased in connection with the vesting of restricted stock awards to satisfy employees' minimum statutory tax withholding obligations. During the three months ended March 30, 2013, the Company repurchased 1 share of its common stock for \$162 in private party transactions. The Company did not repurchase any shares in private party transactions during the third quarter of fiscal 2012. During the nine months ended March 30, 2013, the Company repurchased 111 shares of its common stock for \$12,321 in private party transactions. During the nine months ended March 31, 2012, the Company repurchased 88 shares of its common stock for \$7,954 in private party transactions. All common stock repurchased by the Company becomes authorized but unissued stock and is available for reissuance in the future for general corporate purposes. The Company paid quarterly dividends totaling \$24,490 and \$21,516, or \$0.26 and \$0.23 per share, for the first nine months of fiscal 2013 and 2012, respectively. The declaration and payment of dividends, if any, is subject to the

discretion of the Board of Directors and will depend on the earnings, financial condition and capital and surplus requirements of the Company and other factors the Board of Directors may consider relevant.

Credit Facilities

39

Table of Contents

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

In the second quarter of fiscal 2013, the 2011 Credit Agreement was further amended to: (i) provide that guaranties and collateral required under the 2011 Credit Agreement will be released by the lenders upon the Company attaining index debt ratings of BBB- from Standard and Poor's and Baa3 from Moody's, or higher, and if the guaranties and collateral have been so released, to provide for their reinstatement for the benefit of the lenders upon the Company receiving index debt ratings of BB+ from Standard and Poor's and Ba1 from Moody's, or lower; (ii) extend the final maturity date of the term loan and any revolving loans under the 2011 Credit Agreement from November 3, 2016, to November 3, 2017, with no changes to loan pricing or other terms and conditions except the triggering events for release and reinstatement of guaranties and collateral as described above; and (iii) restore the aggregate term loan commitments to the original \$400,000.

Subsequent to the Company's third quarter of fiscal 2013, on May 6, 2013, the Company completed a Third Amendment to its 2011 Credit Agreement to conform the terms and conditions of the agreement to the terms and conditions customarily found in credit agreements of investment-grade borrowers, including but not limited to: i) limitation on liens that can be imposed on the Company, ii) elimination of collateral arrangements and subsidiary guaranties and iii) modification of covenant baskets, cross-default thresholds and subsidiary borrowing limitations.

Accounts Receivable Securitization

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

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

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

Investment Securities

As of June 30, 2012 and March 31, 2012, the Company held ARS that were recorded at a fair value of \$6,470 and \$6,570, respectively. Subsequent to a second quarter fiscal 2009 other-than-temporary impairment, the Company had recorded unrealized gains and losses on these investments in other comprehensive income because the Company had classified these investments as available-for-sale and had determined that any changes in fair value were temporary in nature. During the third quarter of fiscal 2013, one of the three ARS tranches was called by the issuer, and, as a result, the Company decided to sell all t

Table of Contents

three tranches. Upon the sale, the Company recorded cash proceeds of \$8,630 and recognized a loss of \$1,608 within other expense, of which \$828 was attributable to a decline in market value while \$780 was due to foreign currency transaction loss as these U.S. dollar-denominated securities were held by the Company's Israeli subsidiary, which has a shekel functional currency.

Contractual Obligations

There were no material changes in contractual obligations during the third quarter of fiscal 2013.

Critical Accounting Estimates

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

Recently Issued Accounting Standards

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

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

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

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

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

Table of Contents

Item 4. Controls and Procedures

As of March 30, 2013, the Company's management, including its Chief Executive Officer and its Chief Financial Officer, has performed an interim review of the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934. Based on that review, the Chief Executive Officer and Chief Financial Officer have concluded the Company's disclosure controls and procedures are effective in ensuring that all material information relating to the Company and its consolidated subsidiaries required to be included in the Company's periodic SEC filings would be made known to them by others within those entities in a timely manner and that no changes are required at this time.

In connection with the interim evaluation by the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the Company's internal control over financial reporting pursuant to Rule 13a-15(d) of the Securities Exchange Act of 1934, no changes during the quarter ended March 30, 2013, were identified that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

During the first and third quarters of fiscal 2012, the Company acquired Paddock Laboratories, Inc. ("Paddock") and CanAm Care, LLC ("CanAm"), respectively. In the second quarter of fiscal 2013, the Company acquired Sergeant's Pet Care Products, Inc. ("Sergeant's") and Cobrek Pharmaceuticals, Inc. ("Cobrek"). In the third quarter of fiscal 2013, the Company acquired Rosemont Pharmaceuticals Ltd. ("Rosemont") (see Note 2 - Business Acquisitions for additional information). As permitted by Securities and Exchange Commission Staff interpretive guidance for newly acquired businesses, management excluded Paddock, CanAm, Sergeant's, Cobrek and Rosemont from its interim evaluation of internal control over financial reporting as of March 30, 2013. The Company is in the process of documenting and testing these acquired businesses' internal controls over financial reporting. The Company will incorporate Paddock and CanAm into its annual report on internal control over financial reporting for its fiscal year-end 2013 and will incorporate Sergeant's, Cobrek and Rosemont into its annual report on internal control over financial reporting for its fiscal year-end 2014. As of March 30, 2013, Paddock, CanAm, Sergeant's, Cobrek and Rosemont's total assets together represented approximately 27% of the Company's consolidated total assets. Paddock, CanAm, Sergeant's, Cobrek and Rosemont's net sales together represented approximately 11% of the Company's consolidated net sales for the nine months ended March 30, 2013.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

If the Company cannot continue to rapidly develop, manufacture and market innovative products that meet customer requirements for performance, safety and cost effectiveness, it may lose market share and its revenues may be negatively impacted.

The Company's future results of operations depend, to a significant degree, upon its ability to successfully commercialize additional over-the-counter ("OTC") and generic prescription drugs and/or innovative pharmaceuticals, infant formulas and active pharmaceutical ingredients ("API"). All pharmaceutical products must meet regulatory standards and/or receive regulatory approvals. The Company must prove that the OTC Abbreviated New Drug Application ("ANDA") or New Drug Application ("NDA") and generic prescription products are bioequivalent to their branded counterparts, which typically requires bioequivalency studies or even more extensive clinical trials to demonstrate efficacy of topical products. The development and commercialization process, particularly with respect to innovative products, is both time consuming and costly and involves a high degree of business risk. Products currently under development, if and when fully developed and tested, may not perform as expected, may not pass required bioequivalence studies or may be the subject of intellectual property challenges, and necessary regulatory approvals may not be obtained in a timely manner, if at all, and the Company may not be able to successfully and profitably produce and market such products. Delays in any part of the process or the Company's inability to obtain regulatory approval of its products (including products developed by others to which the Company has exclusive marketing rights) could adversely affect operating results by restricting or delaying its introduction of new products. Even upon the successful development of a product, the Company's customer's failure to launch a product could adversely affect operating results. The U.S. Food and Drug Administration ("FDA") could impose higher standards and additional requirements, such as requiring more supporting data and clinical data than previously required, in order to gain FDA clearance to launch new formulations in to the market. Continuous introductions of new products and product categories are critical to the Company's business. Product margins may decline over time due to the products' aging life cycles, changes in consumer choice or developments in drug delivery technology. Therefore, new product introductions are necessary for maintenance of the Company's current financial condition, and if the Company fails to introduce and market new products, the effect on its financial results could be materially adverse.

The Company contracts with clinical research organizations ("CROs") to conduct various studies that are used to support the Company's new product development program. During the third quarter of fiscal 2013, certain of the CROs used by the Company began bankruptcy or receivership proceedings, including PRACS Institute, LLC; PRACS Institute Canada B.C. Ltd.; Comprehensive Clinical Development, Inc.; and their related entities. It is uncertain what, if any, impact these insolvency proceedings may have on the ability of those CROs to deliver their study results to the Company or on the Company's ability to rely on research performed by those CROs. To the extent those CROs cannot deliver their study results to the Company or the Company cannot rely, in whole or in part, on the research conducted by those CROs, it may delay the launch of new products, which could have a material adverse impact on the Company's future operating results.

The Company's investment in research and development is expected to increase above recent levels due to the Company's ongoing broadening of its OTC, ANDA or NDA, generic prescription and specialty API product portfolio, as well as several opportunities for new products that are switching from prescription to OTC status. The ability to attract scientists proficient in emerging delivery forms and/or contracting with a third party in order to generate new products of this type is a critical element of the Company's long-term plans. Should the Company fail to attract qualified employees, successfully develop products in a timely manner, or enter into reasonable agreements with third parties, long-term sales growth and profit would be adversely impacted.

Although the Company only enters into business acquisitions and divestitures that it expects will result in benefits to the Company, the Company may not realize those benefits because of integration and other challenges, which could have a material adverse effect on the Company's stock price or operating results.

Table of Contents

As part of the Company's strategy, it evaluates potential acquisitions in the ordinary course of business, some of which could be and have been material. Acquisitions involve a number of risks and present financial, managerial and operational challenges. Integration activities may place substantial demands on the Company's management, operational resources and financial and internal control systems. Customer dissatisfaction or performance problems with an acquired business, technology, service or product could also have a material adverse effect on the Company's reputation and business. The Company's failure to successfully integrate acquisitions could have a negative effect on its operations. Integration risks and synergies associated with the Company's acquisitions are likely to include, but are not limited to, sales force, sales channel or product portfolio rationalization; manufacturing, distribution and supply chain integration and purchasing savings; quality and regulatory process standardization; and information technology and administration shared service implementations. The dedication of management resources to such integration may detract attention from the Company's day-to-day business, and there can be no assurance that there will not be substantial costs associated with the transaction process or other material adverse effects as a result of these integration efforts. In addition, a lack of performance of acquisitions could cause financial difficulties. During the second quarter of fiscal 2013, the Company acquired Sergeant's Pet Care Products, Inc. and Cobrek Pharmaceuticals, Inc. and during the third quarter of fiscal 2013, the Company acquired Rosemont Pharmaceuticals Ltd. In addition, on April 1, 2013, subsequent to the Company's third quarter of fiscal 2013, the Company completed the acquisition of 100% of the shares of privately-held Velcera, Inc.

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

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

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

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

At times, the Company may seek approval to market NDA or ANDA products before the expiration of patents for those products, based upon its belief that such patents are invalid, unenforceable or would not be infringed by its products. As a result, the Company may face significant patent litigation. Depending upon a complex analysis of a variety of legal and commercial factors, the Company may, in certain circumstances, elect to market a generic pharmaceutical product while litigation is pending, before any court decision or while an appeal of a lower court decision is pending. This is referred to in the pharmaceutical industry as an “at risk” launch. The risk involved in an “at risk” launch can be substantial because, if a patent holder ultimately prevails, the remedies available to the patent holder may include, among other things, damages measured by the profits lost by the holder, which are often significantly higher than the profits the Company makes from selling the generic version of the product. By electing to proceed in this manner, the Company could face substantial damages if a final court decision is adverse to the Company. In the case where a patent holder is able to prove that the Company's infringement was “willful” or “exceptional”, the definition of which is subjective, the patent holder may be awarded up to three times the amount of its actual damages. At the end of the third quarter of fiscal 2012 and following a summary judgment ruling of non-infringement, the Company launched a generic version of Mucinex® tablets (600mg) from Reckitt Benckiser prior to the expiration of the relevant patents. At that time, this was an at risk launch. During the second quarter of fiscal 2013, the brand dismissed the appeal, and as a result, this is no longer an at risk launch.

Table of Contents

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

The Company does not currently have a common stock repurchase program, but does repurchase shares in private party transactions from time to time. Private party transactions are shares repurchased in connection with the vesting of restricted stock awards to satisfy employees' minimum statutory tax withholding obligations. All common stock repurchased by the Company becomes authorized but unissued stock and is available for reissuance in the future for general corporate purposes.

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

Fiscal 2013	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Value of Shares Available for Purchase
				\$—
December 30 to February 2	—	\$—	—	\$—
February 3 to March 2	—	\$—	—	\$—
March 3 to March 30	1	\$114.99	—	\$—
Total	1		—	

(1) Private party transactions accounted for the purchase of 1 share in the period from March 3 to March 30.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Events

Amendment to 2011 Credit Agreement

On May 6, 2013, the Credit Agreement dated October 26, 2011, among the Company and certain of its subsidiaries, JPMorgan Chase Bank N.A., as Administrative Agent, certain other participant banks, and the lender parties therein listed was amended to conform the terms and conditions of the agreement to the terms and conditions customarily found in credit agreements of investment-grade borrowers, including but not limited to: (i) limit the liens that can be imposed on the Company, (ii) eliminate certain collateral arrangements and subsidiary guaranties and (iii) modify covenant baskets, cross-default thresholds and subsidiary borrowing limitations. The amendment did not change the interest rate, term or amount of the revolving loan and term loan commitment.

Table of Contents

Item 6. Exhibits

Exhibit Number	Description
10.1	Third Amendment dated May 6, 2013, to the Credit Agreement dated October 26, 2011, among Perrigo Company and certain of its subsidiaries, JPMorgan Chase Bank N.A., as Administrative Agent, and certain other participant banks; and the lender parties therein listed.
31	Rule 13a-14(a) Certifications.
32	Section 1350 Certifications.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

Table of Contents

SIGNATURES

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

PERRIGO COMPANY
(Registrant)

Date: May 7, 2013

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

Date: May 7, 2013

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

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
10.1	Third Amendment dated May 6, 2013, to the Credit Agreement dated October 26, 2011, among Perrigo Company and certain of its subsidiaries, JPMorgan Chase Bank N.A., as Administrative Agent, and certain other participant banks; and the lender parties therein listed.
31	Rule 13a-14(a) Certifications.
32	Section 1350 Certifications.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.