PERRIGO CO
Form 10-Q
February 05, 2008

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: DECEMBER 29, 2007

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 0-19725

PERRIGO COMPANY
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MICHIGAN	38-2799573
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
515 EASTERN AVENUE ALLEGAN, MICHIGAN (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	49010 (ZIP CODE)

(269) 673-8451
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

NOT APPLICABLE
(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST REPORT)

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

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

LARGE ACCELERATED FILER [X] ACCELERATED FILER [ ]

NON-ACCELERATED FILER [ ] SMALLER REPORTING COMPANY [ ]
(DO NOT CHECK IF A SMALLER REPORTING COMPANY)

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

As of January 25, 2008 the registrant had 93,080,386 outstanding shares of common stock.

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PERRIGO COMPANY

FORM 10-Q

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this report are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created thereby. These statements relate to future events or the Company's future financial performance and involve known and unknown risks, uncertainties and other factors that may cause the actual results, levels of activity, performance or achievements of the Company or its industry to be materially different from those expressed or implied by any forward-looking statements. In particular, statements about the Company's expectations, beliefs, plans, objectives, assumptions, future events or future performance contained in this report, including certain statements contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "would," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential" or the negative of those terms or other comparable terminology. Please see Item 1A of the Company's Form 10-K for the year ended June 30, 2007 and Item 1A of this Form 10-Q for a discussion of certain important risk factors that relate to forward-looking statements contained in this report. The Company has based these forward-looking statements on its current expectations, assumptions, estimates and projections. While the Company believes these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond the Company's control. These and other important factors may cause actual results, performance or achievements to differ materially from those expressed or implied by these forward-looking statements. The forward-looking statements in this report are made only as of the date hereof, and unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 1. Financial Statements (Unaudited)

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

	Second Quarter		Year-to-Date	
	2008	2007	2008	2007
Net sales	$435,483	$370,629	$818,223	$710,844
Cost of sales	305,071	274,147	571,093	521,547
Gross profit	130,412	96,482	247,130	189,297

Operating expenses				
Distribution	7,744	7,155	14,818	14,539
Research and development	16,143	14,902	32,463	27,949
Selling and administration	57,685	47,396	104,960	94,068
Restructuring	--	642	--	642
Total	81,572	70,095	152,241	137,198
Operating income	48,840	26,387	94,889	52,099
Interest, net	3,674	3,300	8,329	7,886
Other income, net	(969)	(2,258)	(2,152)	(2,319)
Income before income taxes	46,135	25,345	88,712	46,532
Income tax expense	11,846	4,257	20,404	8,562
Net income	$ 34,289	$ 21,088	$ 68,308	$ 37,970
Earnings per share				
Basic	$ 0.37	$ 0.23	$ 0.73	$ 0.41
Diluted	$ 0.36	$ 0.23	$ 0.72	$ 0.41
Weighted average shares outstanding				
Basic	93,147	91,836	93,186	92,104
Diluted	95,283	93,506	95,104	93,595
Dividends declared per share	$ 0.0500	$ 0.0450	$ 0.0950	$ 0.0875

See accompanying notes to condensed consolidated financial statements.

PERRIGO COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 29, 2007 (unaudited)	June 30, 2007	December 30, 2006 (unaudited)
Assets			
Current assets			
Cash and cash equivalents	$ 72,163	$ 30,305	$ 39,635
Investment securities	29,642	49,110	34,030
Accounts receivable	311,013	282,045	246,603
Inventories	326,002	295,114	322,624
Current deferred income taxes	38,683	41,400	50,358
Income taxes refundable	4,568	--	--
Assets held for sale	2,746	2,746	--
Prepaid expenses and other current assets	18,669	18,340	24,515
Total current assets	803,486	719,060	717,765

Property and equipment	687,068	664,096	629,325
Less accumulated depreciation	358,068	333,024	308,999
	329,000	331,072	320,326
Restricted cash	400,000	422,000	400,000
Goodwill	212,934	196,218	188,272
Other intangible assets	191,430	159,977	137,921
Non-current deferred income taxes	59,925	54,908	46,039
Other non-current assets	42,535	41,919	43,740
	$2,039,310	$1,925,154	$1,854,063
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable	$ 194,214	$ 164,318	$ 173,008
Notes payable	3,937	11,776	18,333
Payroll and related taxes	44,673	46,226	41,049
Accrued customer programs	48,882	48,218	45,436
Accrued liabilities	40,137	47,333	44,328
Accrued income taxes	--	29,460	23,311
Current deferred income taxes	20,320	17,125	6,193
Current portion of long-term debt	16,539	15,381	--
Total current liabilities	368,702	379,837	351,658
Non-current liabilities			
Long-term debt	648,077	650,762	668,784
Non-current deferred income taxes	106,569	103,775	106,702
Other non-current liabilities	99,566	36,311	34,646
Total non-current liabilities	854,212	790,848	810,132
Shareholders' equity			
Preferred stock, without par value, 10,000 shares authorized	--	--	--
Common stock, without par value, 200,000 shares authorized	505,076	519,419	509,910
Accumulated other comprehensive income	79,470	56,676	31,456
Retained earnings	231,850	178,374	150,907
Total shareholders' equity	816,396	754,469	692,273
	$2,039,310	$1,925,154	$1,854,063
Supplemental Disclosures of Balance Sheet Information			
Allowance for doubtful accounts	$ 8,944	$ 9,421	$ 12,198
Allowance for inventory	$ 36,184	$ 36,210	$ 39,098
Working capital	$ 434,784	$ 339,223	$ 366,107
Preferred stock, shares issued	--	--	--
Common stock, shares issued	93,353	93,395	92,666

See accompanying notes to condensed consolidated financial statements.

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

	Year-To-Date	
	2008	2007
Cash Flows (For) From Operating Activities		
Net income	$ 68,308	$ 37,970
Adjustments to derive cash flows		
Depreciation and amortization	30,983	27,681
Share-based compensation	3,930	5,718
Deferred income taxes	6,096	(4,248)
Sub-total	109,317	67,121
Changes in operating assets and liabilities		
Accounts receivable	(22,125)	(9,295)
Inventories	(24,238)	(22,919)
Income taxes refundable	(4,568)	--
Accounts payable	24,951	(4,034)
Payroll and related taxes	(2,605)	(12,658)
Accrued customer programs	664	(4,098)
Accrued liabilities	(6,663)	(937)
Accrued income taxes	10,266	9,480
Other	10,131	(5,025)
Sub-total	(14,187)	(49,486)
Net cash from operating activities	95,130	17,635
Cash Flows (For) From Investing Activities		
Purchase of securities	(133,791)	(117,746)
Proceeds from sales of securities	153,502	111,665
Asset acquisition	(12,401)	--
Additions to property and equipment	(13,714)	(19,784)
Proceeds from sales of property and equipment	--	2,613
Net cash for investing activities	(6,404)	(23,252)
Cash Flows (For) From Financing Activities		
Repayments of short-term debt, net	(7,839)	(1,699)
Borrowings of long-term debt	50,000	60,000
Repayments of long-term debt	(55,000)	(15,000)
Tax effect of stock transactions	1,115	(59)
Issuance of common stock	16,029	3,700
Repurchases of common stock	(35,417)	(15,547)
Cash dividends	(8,898)	(8,116)
Net cash (for) from financing activities	(40,010)	23,279

Net increase in cash and cash equivalents	48,716	17,662
Cash and cash equivalents, at beginning of period	30,305	19,018
Effect of exchange rate changes on cash	(6,858)	2,955
Cash and cash equivalents, at end of period	$ 72,163	$ 39,635
Supplemental Disclosures of Cash Flow Information		
Cash paid/received during the period for:		
Interest paid	$ 19,561	$ 18,254
Interest received	$ 10,392	$ 9,831
Income taxes paid	$ 11,723	$ 6,727
Income taxes refunded	$ 1,288	$ 1,369

See accompanying notes to condensed consolidated financial statements.

PERRIGO COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 29, 2007
(in thousands, except per share amounts)

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Operating results for the six months ended December 29, 2007 are not necessarily indicative of the results that may be expected for the full year. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes included in the Company's annual report on Form 10-K for the year ended June 30, 2007.

New Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141(R), "Business Combinations", to further enhance the accounting and financial reporting related to business combinations. SFAS No. 141(R) establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Therefore, the effects of the Company's adoption of SFAS No. 141(R) will depend upon the extent and magnitude of acquisitions after June 28, 2009. The most significant effect for the Company is expected to result from the new requirement to capitalize in-process research and development costs, which are currently required to be expensed in accordance with existing accounting requirements and have been material in prior acquisitions.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial

Statements--an amendment of ARB No. 51", to create accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 establishes accounting and reporting standards that require (i) the ownership interest in subsidiaries held by parties other than the parent to be clearly identified and presented in the consolidated balance sheet within equity, but separate from the parent's equity, (ii) the amount of consolidated net income attributable to the parent and the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of income, (iii) changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently, (iv) when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary to be initially measured at fair value, and (v) entities to provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 applies to fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, and prohibits early adoption. The Company does not expect SFAS No. 160 to have a material effect on its consolidated results of operations or its financial position.

In December 2007, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on EITF Issue 07-1, "Accounting for Collaborative Arrangements". EITF 07-1 focuses on defining a collaborative agreement as well as the accounting for transactions between participants in a collaborative agreement and between the participants in the arrangement and third parties. The EITF concluded that both types of transactions should be reported in each participant's respective income statement. EITF 07-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and should be applied retrospectively to all prior periods presented for all collaborative arrangements existing as of the effective date. The Company does not expect EITF 07-1 to have a material effect on its consolidated results of operations or its financial position.

The Company adopted the provisions of FASB Interpretation 48, "Accounting for

Uncertainty in Income Taxes--an interpretation of FASB Statement 109, Accounting for Income Taxes" (FIN 48) on July 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation requires that the Company recognize in the financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. Further information regarding the adoption of FIN 48 is provided in Note I.

In February 2007, the FASB issued SFAS 159, "Establishing the Fair Value Option for Financial Assets and Liabilities", to give companies the option to measure eligible financial instruments at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. An entity is prohibited from retrospectively applying SFAS 159 unless it chooses early adoption in conjunction with SFAS 157, "Fair Value Measurements". The Company does not expect the adoption of this statement to have a material impact on its consolidated results of operations or its financial position.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements". This statement clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures on fair value measurements. SFAS 157 is effective for the Company's fiscal year ending June 27, 2009. On December 14, 2007, the FASB issued Proposed FASB Staff Position (FSP) FAS 157-b. FSP FAS 157-b proposes deferral of the effective date of SFAS 157 until fiscal 2010 for nonfinancial assets and nonfinancial liabilities except those items recognized or disclosed at fair value on an annual or more

frequently recurring basis. FSP FAS 157-b will become effective upon issuance. The Company has not yet determined if the adoption of this statement will have a material impact on its results of operations or financial position.

NOTE B - EARNINGS PER SHARE

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

	Second Quarter		Year-to-Date	
	2008	2007	2008	2007
Numerator:				
Net income used for both basic and diluted EPS	$34,289	$21,088	$68,308	$37,970
Denominator:				
Weighted average shares outstanding for basic EPS	93,147	91,836	93,186	92,104
Dilutive effect of share-based awards	2,136	1,670	1,918	1,491
Weighted average shares outstanding for diluted EPS	95,283	93,506	95,104	93,595

There were no share-based awards outstanding that were anti-dilutive for the

second quarter of fiscal 2008. Share-based awards outstanding that were anti-dilutive for the second quarter of fiscal 2007 were 2,787. Year-to-date share-based awards outstanding that were anti-dilutive were 310 and 2,702 for fiscal 2008 and 2007, respectively. These share-based awards were excluded from the diluted EPS calculation.

NOTE C - INVENTORIES

Inventories are summarized as follows:

	December 29, 2007	June 30, 2007	December 30, 2006
Finished goods	$146,499	$135,974	$157,036
Work in process	83,427	77,241	81,293
Raw materials	96,076	81,899	84,295
	$326,002	$295,114	$322,624

The Company maintains an allowance for estimated obsolete or unmarketable inventory based on the difference between the cost of inventory and its estimated market value. The inventory balances stated above are net of an inventory allowance of $36,184 at December 29, 2007, $36,210 at June 30, 2007 and $39,098 at December 30, 2006.

NOTE D - GOODWILL

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

There were no acquisitions, dispositions or impairments of goodwill during the first half of fiscal 2008. Changes in the carrying amount of goodwill, by reportable segment, are as follows:

	Consumer Healthcare	Rx Pharma-ceuticals	API	Total
Balance as of June 30, 2007	$47,048	$72,426	$76,744	$196,218
Goodwill adjustment	--	3,332	3,677	7,009
Currency translation adjustment	1,487	3,940	4,280	9,707
Balance as of December 29, 2007	$48,535	$79,698	$84,701	$212,934

As further discussed in Note I, upon adoption of FIN 48 on July 1, 2007, the

Company recorded a $6,108 adjustment to goodwill for the Rx Pharmaceuticals and API segments. A second quarter FIN 48 adjustment of $567 was made to the API segment. Because the adjustments reflect additional unrecognized tax benefits related to pre-acquisition tax uncertainties associated with the acquisition of Agis, they were recorded as additional goodwill, rather than as a charge to retained earnings for the first quarter, when FIN 48 was adopted, or earnings in the second quarter in accordance with EITF 93-7, "Uncertainties Related to Income Taxes in a Purchase Business Combination" (EITF 93-7).

In addition, during the second quarter of fiscal 2008, the Company recorded a second adjustment to goodwill for the API segment of $334. This adjustment was to record a deferred tax liability for income taxes related to pre-acquisition earnings. In accordance with EITF 93-7, the Company treated this item as an uncertain tax position at the time of the acquisition.

NOTE E - INTANGIBLE ASSETS

Intangible assets and related accumulated amortization consist of the following:

	December 29, 2007		June 30, 2007	
	Gross	Accumulated Amortization	Gross	Accumulated Amortization
Developed product technology / formulation	$196,972	$30,153	$154,923	$21,490
Distribution and license agreements	25,139	9,413	24,790	7,593
Customer relationships	4,900	4,366	4,900	4,018
Trademarks	10,705	2,354	10,235	1,770
Total	$237,716	$46,286	$194,848	$34,871

The Company recorded a charge for amortization expense of $9,266 and $6,424 for the first half of fiscal 2008 and 2007, respectively, for intangible assets subject to amortization.

The estimated amortization expense for each of the following five years is as follows:

Fiscal Year	Amount
2008(1)	$ 9,200
2009	17,900
2010	16,400
2011	15,200
2012	15,200

---

(1) Reflects remaining six months of fiscal 2008.

NOTE F - OUTSTANDING DEBT

Total borrowings outstanding are summarized as follows:

	December 29, 2007	June 30, 2007	December 30, 2006
Short-term debt:			
Swingline loan	$ 3,937	$ 11,776	$ 18,333
Current portion of long-term debt	16,539	15,381	--
Total	20,476	27,157	18,333
Long-term debt:			
Revolving line of credit	115,000	120,000	125,000
Term loan	100,000	100,000	100,000
Letter of undertaking - Israel subsidiary	400,000	400,000	400,000
Debenture - Israel subsidiary	33,077	30,762	43,784
Total	648,077	650,762	668,784
Total debt	$668,553	$677,919	$687,117

The terms of the loan related to the letter of undertaking indicated above require that the Company maintain a deposit of $400,000 in an uninsured account with the lender as security for the loan. The deposit is classified as restricted cash in the balance sheet as a non-current asset.

NOTE G - SHAREHOLDERS' EQUITY

The Company has a common stock repurchase program. Purchases are made on the open market, subject to market conditions, and are funded by available cash or borrowings. All common stock repurchased by the Company becomes authorized but unissued stock and is available for reissuance in the future for general corporate purposes. The Company has a 10b5-1 plan that allows brokers selected by the Company to repurchase shares on behalf of the Company at times when it would ordinarily not be in the market because of the Company's trading policies. The Company repurchased 1,061 shares of its common stock for $31,137 and 251 shares of its common stock for $4,309 during the second quarter of fiscal 2008 and 2007, respectively. Year-to-date, the Company repurchased 1,263 shares of its common stock for $35,417 and 961 shares for $15,547 in fiscal 2008 and 2007, respectively. Year-to-date, private party transactions accounted for 28 shares and 18 shares in fiscal 2008 and 2007, respectively.

NOTE H - COMPREHENSIVE INCOME

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

	Second Quarter		Year-to-Date	
	2008	2007	2008	2007
Net income	$34,289	$21,088	$68,308	$37,970
Other comprehensive income (loss):				
Change in fair value of derivative instruments, net of tax	(1,581)	78	(3,243)	(1,708)
Foreign currency translation adjustments	34,847	14,151	27,270	30,448
Change in fair value of investment securities, net of tax	(1,428)	(234)	(999)	(877)
Pension and post-retirement liability adjustments, net of tax	(233)	--	(233)	--
Comprehensive income	$65,894	$35,083	$91,103	$65,833

NOTE I - INCOME TAXES

Upon adoption of FIN 48 on July 1, 2007, the Company's total unrecognized tax benefits amounted to $43,833, all of which was included in other non-current liabilities. A portion of this liability, $5,934, was accounted for as a reduction to the July 1, 2007 balance of retained earnings and $6,108 was accounted for as an increase to goodwill, as further discussed in Note D. The remaining $31,791 was reclassified from current accrued income taxes to other non-current liabilities. During the first six months of fiscal year 2008, the liability for uncertain tax positions increased by $10,252 (including currency impacts) related to current year activity, of which $567 was accounted for as an increase to goodwill, as further discussed in Note D, bringing the Company's total unrecognized tax benefits to $54,085 as of December 29, 2007.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in tax expense. Total interest and penalties included in non-current liabilities at July 1, 2007 amounted to $9,216 (net of tax benefit). During the first six months of fiscal year 2008, the liability for interest and penalties increased $2,511 (net of tax and including currency impacts).

As of July 1, 2007, the Company had unrecognized tax benefits of $37,725, which, if recognized, would favorably affect the effective income tax rate in future periods.

Tax years subject to examination in the U.S. by the IRS include all fiscal years after 2004. Additionally, the Israeli Tax Authority is currently auditing the Company for years ended December 2003, December 2004 and May 2005. In January 2008, the Company was notified by the German Tax Authority that it will be audited for the years ended December 2003, December 2004, May 2005, May 2006 and May 2007.

The Company anticipates that the total amount of liability for unrecognized tax benefits may change due to the settlement of audits and the expiration of statutes of limitations in the next 12 months. However, given the status of examinations the Company cannot reliably estimate the range of a potential change at this time.

NOTE J - COMMITMENTS AND CONTINGENCIES

Several Arkansas counties, including Independence County, have filed a lawsuit against the Company and various manufacturers and distributors of products containing pseudoephedrine, which is used to produce methamphetamine, an illegal drug. The Company has been informed that other counties in Arkansas may join in the lawsuit as plaintiffs. Through this lawsuit, the plaintiff counties seek to recoup as damages some of the expenses they have incurred to combat methamphetamine use and addiction. They also seek punitive damages, disgorgement of profits and attorneys' fees. The Company believes that the lawsuit is without merit and is vigorously defending against it. At this early stage, the Company cannot predict whether this issue will have a material impact on its results of operations.

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

The Company's Israeli subsidiary has provided a guaranty to a bank to secure the debt of a 50% owned joint venture for approximately $500, not to exceed 50% of the joint venture's debt, that is not recorded on the Company's condensed consolidated balance sheets as of December 29, 2007.

NOTE K - SEGMENT INFORMATION

The Company has three reportable segments, aligned primarily by product: Consumer Healthcare, Rx Pharmaceuticals and API, as well as an Other category. The majority of corporate expenses, which generally represent shared services, are charged to operating segments as part of a corporate allocation. Unallocated expenses relate to certain corporate services that are not allocated to the segments. The year-to-date 2008 unallocated expenses include a $1,900 reduction in administrative costs due to the favorable settlement of a pre-acquisition legal claim related to Agis in the first quarter.

	Consumer Healthcare	Rx Pharma-ceuticals	API	Other	Unallocated expenses	To
Second Quarter 2008						
Net sales	$320,205	$38,655	$34,608	$42,015	--	$435
Operating income	$ 38,521	$ 8,356	$ 3,425	$ 3,292	$(4,754)	$ 48
Amortization of intangibles	$ 857	$ 3,291	$ 485	$ 254	--	$ 4
Second Quarter 2007						
Net sales	$275,947	$28,260	$28,633	$37,789	--	$370
Operating income	$ 17,420	$ 3,686	$ 5,929	$ 2,976	$(3,624)	$ 26
Amortization of intangibles	$ 720	$ 1,929	$ 434	$ 241	--	$ 3

Year-to-Date 2008						
Net sales	$588,464	$73,615	$73,422	$82,722	--	$818
Operating income	$ 68,070	$15,801	$10,701	$ 5,781	$(5,464)	$ 94
Amortization of intangibles	$ 1,710	$ 6,053	$ 935	$ 568	--	$ 9
Year-to-Date 2007						
Net sales	$517,756	$59,685	$58,412	$74,991	--	$710
Operating income	$ 34,520	$ 9,473	$10,587	$ 5,640	$(8,121)	$ 52
Amortization of intangibles	$ 1,567	$ 3,513	$ 863	$ 481		$ 6

NOTE L - RESTRUCTURING

In the fourth quarter of fiscal 2006, as a result of an ongoing review of its Consumer Healthcare operating strategies, the Company's Board of Directors approved plans to exit two unprofitable product lines, effervescent tablets and psyllium-based laxatives. This action resulted in the sale of one Michigan plant and the closure of an additional Michigan plant, both in the second quarter of fiscal 2007. The Company recorded a gain of $1,276 in the second quarter of fiscal 2007 based on the cash proceeds from the sale of the plant. The gain is included in the restructuring line of the consolidated statement of income. The Company also recorded a $1,500 note receivable from the buyer of the plant. This amount, reflecting further gain on the sale of the plant, was deferred and is being recognized as the note is repaid over the next four years. As of December 29, 2007, the net book value of the assets associated with the second plant is included in the assets held for sale line item on the Company's consolidated balance sheet. In addition, the Company incurred a charge of $1,918 in the second quarter of fiscal 2007 for employee-related and plant shutdown costs. The employee-related charge was $1,151 for termination benefits for 72 employees, all of which was paid by the end of fiscal 2007.

NOTE M - SUBSEQUENT EVENTS

License Agreement Termination - Subsequent to its second quarter end, the Company's Israeli subsidiary and a customer agreed to terminate a license agreement. The termination agreement states that the Company's Israeli subsidiary is to receive from the customer $8,500 in lieu of expected future minimum royalty payments. The Company will recognize the full amount in net sales in the third quarter of fiscal 2008. In addition, as part of the Agis acquisition in March 2005, the Company recorded an intangible asset related to this license agreement. In conjunction with the termination of the agreement, the Company will write-off the remaining net book value of approximately $3,500 in the third quarter of fiscal 2008.

Business Combination - On January 9, 2008, the Company announced that it acquired 100% of the outstanding shares of privately held Galpharm Healthcare Ltd. for approximately $86,000. The Company paid approximately $57,000 in cash and assumed approximately $29,000 of existing debt, which was repaid immediately. Galpharm is a leading supplier of over-the-counter store brand pharmaceutical products sold by super markets, drug stores and pharmacies in the United Kingdom. The acquisition of Galpharm expands the Company's global presence and complements its existing United Kingdom business. Galpharm's results of operations will be recorded in the Company's Consumer Healthcare reporting segment. The Company is in the process of determining the purchase price allocation and expects certain amounts to be allocated to goodwill and other intangible assets. Upon completion of the purchase price allocation process the amounts related to goodwill and other intangible assets, as well as

other major asset and liability categories of Galpharm and its results of operations will be disclosed in the Company's third quarter of fiscal 2008 consolidated financial statements.

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
SECOND QUARTER FISCAL YEARS 2008 AND 2007
(in thousands, except per share amounts)

OVERVIEW

Segments - The Company has three reportable segments, aligned primarily by product: Consumer Healthcare, Rx Pharmaceuticals and API, as well as an Other category. Certain segment information for prior periods has been reclassified to conform to the current year presentation. The amounts reclassified had no effect on retained earnings or net income on either a consolidated or reportable segment basis. The Consumer Healthcare segment includes the U.S., U.K. and Mexico operations supporting the sale of OTC pharmaceutical and nutritional products worldwide. The Rx Pharmaceuticals segment supports the development and sale of prescription drug products. The API segment supports the development and manufacturing of API products in Israel and Germany, with sales to customers worldwide. The Other category consists of two operating segments, Israel Consumer Products and Israel Pharmaceutical and Diagnostic Products, with sales primarily to the Israeli market, including cosmetics, toiletries, detergents, manufactured and imported pharmaceutical products and medical diagnostic products. Neither of these operating segments meets the quantitative thresholds required to be separately reportable segments.

Seasonality - The Company's sales of OTC pharmaceutical and nutritional products are subject to the seasonal demands for cough/cold/flu and allergy products. Accordingly, operating results for the first half of fiscal 2008 are not necessarily indicative of the results that may be expected for a full year.

Current Year Results - Net sales for the second quarter of fiscal 2008 were $435,483, an increase of 17% over fiscal 2007. The increase spanned all the Company's segments, driven primarily by the Consumer Healthcare segment. New product sales for the second quarter of fiscal 2008 were approximately $13,900. Gross profit was $130,412, an increase of 35% over fiscal 2007, driven primarily by the Consumer Healthcare and Rx Pharmaceuticals segments. Fiscal 2007 gross profit was negatively impacted by the acetaminophen product recall discussed below. The gross profit percentage in the second quarter of fiscal 2008 was 29.9%, up from 26.0% last year. Operating expenses in the second quarter of fiscal 2008 were $81,572, an increase of 16% over fiscal 2007, which included a net restructuring charge of $642. Operating expenses as a percent of net sales were 18.7%, down slightly from 18.9% in the second quarter of fiscal 2007. Net income was $34,289, an increase of 63% from fiscal 2007, driven primarily by the increase in operating income from the Consumer Healthcare and Rx Pharmaceuticals segments, offset by a higher effective tax rate in fiscal 2008 compared to fiscal 2007.

Net sales for the first half of fiscal 2008 were $818,223, an increase of 15% over fiscal 2007. The increase spanned all of the Company's segments and included new product sales of approximately $24,800. Gross profit was $247,130, up 31% over fiscal 2007, and the increase spanned all of the Company's segments. Fiscal 2007 gross profit was negatively impacted by the acetaminophen product

recall by approximately $6,500. The gross profit percentage in the first half of fiscal 2008 was 30.2%, up from 26.6% last year. Operating expenses were $152,241, an increase of 11% over fiscal 2007, but as a percent of sales were slightly lower than fiscal 2007. Net income was $68,308, an increase of 80% from fiscal 2007, driven primarily by the increase in operating income from the Consumer Healthcare and Rx Pharmaceuticals segments, offset by a higher effective tax rate in fiscal 2008 compared to fiscal 2007.

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

Product Recall - On November 9, 2006, the Company initiated a voluntary retail-level recall of certain lots of its acetaminophen 500 mg caplets containing raw material purchased from a third-party supplier. The total cost of the recall was approximately $6,500, of which $5,000 was recorded in the second quarter of fiscal 2007. The charge included sales returns and refunds, handling of on-hand inventories, disposal of inventory and management of consumer inquiries. There were no additional charges recorded for this recall during the first half of fiscal 2008 as it has been essentially completed.

Events Impacting Future Results - In December 2007, the Company announced that the U.S. Food and Drug Administration granted final approval to Dexcel Pharma Technologies, Ltd. for 20 mg Omeprazole delayed-release tablets. Omeprazole is indicated for the treatment of frequent heartburn. Through a partnership with Dexcel, the Company will be the exclusive marketer and distributor of this product for the store brand over-the-counter market in the United States. The Company expects to begin shipping its product during the third quarter of fiscal 2008, with full year annual sales anticipated to be in the range of $150,000 to $200,000. The addition of Omeprazole to the Company's existing product portfolio is expected to have a material positive impact on the Company's operating results starting in the third quarter of fiscal 2008 and beyond.

Also in December 2007, the Company's U.K. subsidiary was notified by a customer of the expected loss of future contract manufacturing business beginning in fiscal 2009. The projected loss of approximately $20,000 in annual sales is expected to have an adverse impact on the Company's ongoing operating results beginning in fiscal 2009.

Subsequent to its second quarter end, the Company's Israeli subsidiary and a customer agreed to terminate a license agreement. The termination agreement states that the Company's Israeli subsidiary is to receive from the customer $8,500 in lieu of expected future minimum royalty payments. The Company will recognize the full amount in net sales in the third quarter of fiscal 2008. In addition, as part of the Agis acquisition in March 2005, the Company recorded an intangible asset related to this license agreement. In conjunction with the termination of the agreement, the Company will write-off the remaining net book value of approximately $3,500 in the third quarter of fiscal 2008.

Business Combination - On January 9, 2008, the Company announced that it acquired 100% of the outstanding shares of privately held Galpharm Healthcare Ltd. for approximately $86,000. The Company paid approximately $57,000 in cash and assumed approximately $29,000 of existing debt, which was repaid immediately. Galpharm is a leading supplier of over-the-counter store brand pharmaceutical products sold by super markets, drug stores and pharmacies in the United Kingdom. The acquisition of Galpharm expands the Company's global presence and complements its existing United Kingdom business. Galpharm's results of operations will be recorded in the Company's Consumer Healthcare

reporting segment. The Company is in the process of determining the purchase price allocation and expects certain amounts to be allocated to goodwill and other intangible assets. Upon completion of the purchase price allocation process the amounts related to goodwill and other intangible assets, as well as other major asset and liability categories of Galpharm and its results of operations will be disclosed in the Company's third quarter of fiscal 2008 consolidated financial statements.

RESULTS OF OPERATIONS

CONSUMER HEALTHCARE

	Second Quarter		Year-to-Date	
	2008	2007	2008	2007
Net sales	$320,205	$275,947	$588,464	$517,756
Gross profit	$ 86,236	$ 59,346	$158,123	$115,547
Gross profit %	26.9%	21.5%	26.9%	22.3%
Operating expenses	$ 47,715	$ 41,926	$ 90,053	$ 81,027
Operating expenses %	14.9%	15.2%	15.3%	15.6%
Operating income	$ 38,521	$ 17,420	$ 68,070	$ 34,520
Operating income %	12.0%	6.3%	11.6%	6.7%

Net Sales

Second quarter net sales for fiscal 2008 increased 16% or $44,258 compared to fiscal 2007. The increase was comprised of $37,531 of domestic and $6,727 of international sales. The domestic increase resulted from $6,500 of new product sales, primarily in the smoking cessation and cough/cold categories, along with a $41,400 increase from higher unit sales of existing products in the smoking cessation and analgesics categories, as well as certain gastrointestinal and cough/cold products. A large portion of this increase was the result of a continued absence in the OTC marketplace of a key competitor during the quarter. These combined domestic increases were partially offset by a $10,400 sales decline in certain gastrointestinal, nutrition and cough/cold products. Of this decrease, approximately $7,700 was due to the Company's strategic exit of both fiber laxative and effervescent cough/cold product lines in the second quarter of fiscal 2007. The increase in international sales was driven primarily by new product sales of $3,400, increased volume on existing products of $900 and favorable foreign currency exchange of $2,400.

Year-to-date net sales for fiscal 2008 increased 14% or $70,708 compared to fiscal 2007. The increase was comprised of $56,861 of domestic and $13,847 of international sales. The domestic increase resulted from $13,300 of new product sales, primarily in the smoking cessation, nutrition and cough/cold categories, along with a $61,100 increase from higher unit sales of existing products in the smoking cessation and analgesics categories, as well as certain gastrointestinal and cough/cold products. A large portion of this increase was the result of a continued absence in the OTC marketplace of a key competitor during the quarter. These combined domestic increases were partially offset by a $23,800 sales decline in certain gastrointestinal, nutrition and cough/cold products. Of this decrease, approximately $15,200 was due to the Company's strategic exit of both

fiber laxative and effervescent cough/cold product lines in the second quarter of fiscal 2007. The increase in international sales was driven primarily by new product sales of $6,400, increased volume on existing products of $2,700 and favorable foreign currency exchange of $4,700.

Gross Profit

Second quarter gross profit for fiscal 2008 increased 45% or $26,890 compared to fiscal 2007. The

increase resulted from higher gross margins attributed to new products, a favorable mix of products sold domestically and production efficiencies driven by higher volumes. In addition, second quarter 2007 included costs related to the product recall described above.

Year-to-date gross profit for fiscal 2008 increased 37% or $42,576 compared to fiscal 2007. The increase resulted from higher gross margins attributed to new products, a favorable mix of products sold both domestically and internationally and production efficiencies driven by higher volumes. In addition, year-to-date fiscal 2007 included higher inventory obsolescence costs, as well as costs related to the product recall.

Operating Expenses

Second quarter operating expenses for fiscal 2008 increased 14% or $5,789 compared to fiscal 2007. The increase was related primarily to administrative expenses of $4,700 and selling expense of approximately $800. The administrative expense increase was due primarily to higher wages and benefits, as well as the absence of a one-time favorable insurance settlement of $1,200 recorded in the second quarter of fiscal 2007. The majority of the increase in selling costs related to higher commissions.

Year-to-date operating expenses for fiscal 2008 increased 11% or $9,026 compared to fiscal 2007. The increase was related primarily to administrative expenses of approximately $3,700, research and development costs of approximately $2,700 and selling expense of approximately $2,500. The research and development increase was due to the timing of clinical studies, and the majority of the increase in selling costs related to the timing of promotional activities and higher commissions. The administrative expense increase was due primarily to higher wages and benefits, as well as the absence of a one-time favorable insurance settlement of $1,200 recorded in the second quarter of fiscal 2007.

RX PHARMACEUTICALS

	Second Quarter		Year-to-Date	
	2008	2007	2008	2007
Net sales	$38,655	$28,260	$73,615	$59,685
Gross profit	$17,737	$11,387	$32,855	$25,174
Gross profit %	45.9%	40.3%	44.6%	42.2%
Operating expenses	$ 9,381	$ 7,701	$17,054	$15,701
Operating expenses %	24.3%	27.3%	23.2%	26.3%

Operating income	$ 8,356	$ 3,686	$15,801	$ 9,473
Operating income %	21.6%	13.0%	21.5%	15.9%

Net Sales

Second quarter net sales for fiscal 2008 increased 37% or $10,395 compared to fiscal 2007. This increase was due primarily to sales of approximately $6,900 attributable to products acquired from Glades Pharmaceuticals, LLC (Glades), increased sales volumes on the Company's existing portfolio of products of approximately $6,600, new product sales of approximately $1,100 and the absence of a $1,700 charge for customer-related programs in the second quarter of fiscal 2007. These increases were

partially offset by pricing pressure due to continued competition in the marketplace for generic drugs.

Year-to-date net sales for fiscal 2008 increased 23% or $13,930 compared to fiscal 2007. This increase was due primarily to sales of approximately $13,500 attributable to products acquired from Glades, increased sales volumes on the Company's existing portfolio of products of approximately $4,700, new product sales of approximately $1,700 and the absence of a $5,000 charge for customer-related programs in the first half of fiscal 2007. These increases were partially offset by $10,800 in pricing pressure due to increased competition on existing products.

Fiscal 2007 results included a reduction to sales related to the Company's customer programs in the Rx Pharmaceuticals segment as noted above. Customer programs are common in the industry and include such items as rebates and chargebacks. The determination of the liability for these programs involves a significant amount of estimation. The Company has a methodology by which it accrues and validates its accrual of these expenses. This methodology includes several variables: inventory reports supplied by wholesalers that indicate inventory levels, detailed computations using historical payments and estimated sell-through to retailers with varying contract prices. The Company had been monitoring its methodology and made material changes to certain of these estimates in the first half of fiscal 2007 that led to the $5,000 charge. The changes to the estimates were intended to further enhance the accuracy and reliability of the calculation of the liability and to reduce the risk of incremental charges for customer programs beyond the first and second quarter fiscal 2007 charges. There have been no material adjustments for customer program liabilities subsequent to the second quarter of fiscal 2007.

Gross Profit

Second quarter gross profit for fiscal 2008 increased 56% or $6,350 compared to fiscal 2007. The increase was due primarily to the strong gross margin on products acquired from Glades, as well as increased volume and favorable product mix. These increases were partially offset by pricing pressure on existing products.

Year-to-date gross profit for fiscal 2008 increased 31% or $7,681 compared to fiscal 2007. The increase was due primarily to the strong gross margin on products acquired from Glades, increased volume and favorable product mix, as well as lower inventory related costs. These increases were partially offset by pricing pressure on existing products.

Operating Expenses

Second quarter operating expenses for fiscal 2008 increased 22% or $1,680 compared to fiscal 2007. Year-to-date operating expenses for fiscal 2008 increased 9% or $1,353 compared to fiscal 2007. These increases were due primarily to higher employee-related costs.

API

	Second Quarter		Year-to-Date	
	2008	2007	2008	2007
Net sales	$34,608	$28,633	$73,422	$58,412
Gross profit	$11,814	$12,242	$27,146	$22,319
Gross profit %	34.1%	42.8%	37.0%	38.2%
Operating expenses	$ 8,389	$ 6,313	$16,445	$11,732
Operating expenses %	24.2%	22.0%	22.4%	20.1%
Operating income	$ 3,425	$ 5,929	$10,701	$10,587
Operating income %	9.9%	20.7%	14.6%	18.1%

Net Sales

Second quarter net sales for fiscal 2008 increased 21% or $5,975 compared to fiscal 2007. This increase was due primarily to increased volume on existing products of approximately $6,600 and new product sales of approximately $3,000, partially offset by a decline of approximately $3,600 in sales of a key product.

Year-to-date net sales for fiscal 2008 increased 26% or $15,010 compared to fiscal 2007. This increase was due primarily to increased volume of certain key products of approximately $17,000 and new product sales of approximately $3,400. These increases were partially offset by a decline of approximately $5,400 in sales of a key product. The net sales of API are highly dependent on the level of competition in the marketplace for a specific material and the ordering patterns of customers on a quarter over quarter basis. The current trend of increased sales may not continue due to this dependency.

Gross Profit

Second quarter gross profit for fiscal 2008 decreased 3% or $428 compared to fiscal 2007. This decrease was due primarily to approximately $3,300 of higher production costs, mostly offset by approximately $2,900 of favorable changes in the sales mix of products. The gross profit percentage for second quarter fiscal 2008 decreased 8.7 percentage points over fiscal 2007 due primarily to the higher productions costs.

Year-to-date gross profit for fiscal 2008 increased 22% or $4,827 compared to fiscal 2007. This increase was due primarily to favorable changes in the sales mix of products as well as fixed overhead costs spread over increased production

levels. This increase was partially offset by higher production costs.

Operating Expenses

Second quarter operating expenses for fiscal 2008 increased 33% or $2,076 compared to fiscal 2007. The increase was due primarily to approximately $900 of additional research and development costs related to experimental materials and subcontractor expense as well as approximately $1,000 of higher employee-related costs and changes in the foreign exchange rate.

Year-to-date operating expenses for fiscal 2008 increased 40% or $4,713 compared to fiscal 2007. The

increase was due primarily to approximately $1,700 of additional research and development costs related to experimental materials and subcontractor expense as well as approximately $2,300 of higher employee-related costs and changes in the foreign exchange rate.

OTHER

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

	Second Quarter		Year-to-Date	
	2008	2007	2008	2007
Net sales	$42,015	$37,789	$82,722	$74,991
Gross profit	$14,625	$13,507	$29,005	$26,257
Gross profit %	34.8%	35.7%	35.1%	35.0%
Operating expenses	$11,333	$10,531	$23,224	$20,617
Operating expenses %	27.0%	27.8%	28.1%	27.5%
Operating income	$ 3,292	$ 2,976	$ 5,781	$ 5,640
Operating income %	7.8%	7.9%	7.0%	7.5%

Second quarter net sales for fiscal 2008 increased 11% or $4,226 compared to fiscal 2007. The increase was due primarily to approximately $3,000 of changes in the foreign exchange rate as well as approximately $1,900 due to changes in the sales mix of products. This increase was partially offset by $700 related to a one-time selling tax assessment. Year-to-date net sales for fiscal 2008 increased 10% or $7,731 compared to fiscal 2007. This increase was due primarily to approximately $4,900 of changes in the foreign exchange rate, as well as approximately $2,800 related to changes in the sales mix of products, primarily in the Pharmaceutical and Diagnostic Products business.

Second quarter gross profit for fiscal 2008 increased 8% or $1,118 compared to fiscal 2007, due primarily to changes in the foreign exchange rate. Year-to-date gross profit for fiscal 2008 increased 10% or $2,748 compared to fiscal 2007.

The increase was due primarily to approximately $1,700 of benefit from foreign exchange rate fluctuations and $1,000 due to changes in the sales mix of products.

Second quarter operating expense for fiscal 2008 increased 8% or $802 compared to fiscal 2007 due mainly to changes in the foreign exchange rate and higher employee-related costs. Year-to-date operating expenses for fiscal 2008 increased 13% or $2,607 compared to fiscal 2007 due primarily to increased promotional activities, changes in the foreign exchange rate and higher employee-related costs.

UNALLOCATED EXPENSES

	Second Quarter		Year-to-Date	
	2008	2007	2008	2007
Operating expenses	$4,754	$3,624	$5,464	$8,121

Unallocated expenses were comprised of certain corporate services that were not allocated to the segments. Unallocated expenses for the second quarter of fiscal 2008 increased 31% or $1,130 compared to fiscal 2007 due primarily to higher employee wages and benefits.

Year-to-date unallocated expenses decreased 33% or $2,657 compared to fiscal 2007. The decrease in fiscal 2008 was due primarily to a $1,900 favorable settlement of a pre-acquisition legal claim related to Agis recorded in the first quarter of fiscal 2008, along with one-time employee-related expenses of $900 in fiscal 2007 not repeated in fiscal 2008. These decreases were partially offset by higher employee wages and benefits in fiscal 2008.

INTEREST AND OTHER (CONSOLIDATED)

Interest expense for the second quarter was $9,002 for fiscal 2008 and $8,431 for fiscal 2007. Interest income for the second quarter was $5,328 for fiscal 2008 and $5,131 for fiscal 2007. Other income, net was $969 for the second quarter of fiscal 2008 compared to $2,258 for the second quarter of fiscal 2007. The decrease in other income for the second quarter of fiscal 2008 was due primarily to foreign currency transaction losses.

Year-to-date interest expense was $18,846 for fiscal 2008 and $17,771 for fiscal 2007. Year-to-date interest income was $10,517 for fiscal 2008 and $9,885 for fiscal 2007. Year-to-date other income, net was $2,152 and $2,319 for fiscal 2008 and 2007, respectively.

INCOME TAXES (CONSOLIDATED)

The effective tax rate for the second quarter was 25.7% for fiscal 2008 and 16.8% for fiscal 2007. Year-to-date the effective tax rate was 23.0% for fiscal 2008 and 18.4% for fiscal 2007. The effective tax rate for the second quarter of fiscal 2007 included the favorable impact of the newly enacted Tax Relief and Healthcare Act of 2006 (the Act). Among other provisions, the Act provides for the restoration of the research and development tax credit, applied

retroactively to January 1, 2006. Accordingly, tax expense in the second quarter of fiscal 2007 was reduced approximately $1,300 to reflect the one-time impact of the retroactive application of the Act. During the first quarter of fiscal 2008, the Company received a favorable tax ruling in Israel. This ruling, which the Company had projected to receive during fiscal 2008, resulted in a one-time benefit of $4,222, or a 4.8 percentage point reduction in the year-to-date effective tax rate.

Foreign source income for the first six months of fiscal 2008 was 45.0% of total income before income taxes, down from 80.0% in the same period of fiscal 2007. Foreign source income is generally derived from jurisdictions with a lower tax rate than the U.S. statutory rate.

The Company estimates the annualized effective tax rate for fiscal 2008 will be between 21% and 24%.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents and investment securities increased $28,140 to $101,805 at December 29, 2007 from $73,665 at December 30, 2006. Working capital, including cash, increased $68,677 to $434,784 at December 29, 2007 from $366,107 at December 30, 2006. The increase in working capital was due primarily to the increase in cash and cash equivalents and accounts receivable associated with higher sales volume.

Year-to-date net cash provided from operating activities increased by $77,495 to $95,130 for fiscal 2008 compared to $17,635 for fiscal 2007. The increase in cash from operations was related primarily to increased earnings for fiscal 2008 compared to fiscal 2007 and general fluctuations in the timing of the overall procurement-to-pay cycle on accounts payable versus last year.

Year-to-date net cash used for investing activities decreased $16,848 to $6,404 for fiscal 2008 compared to $23,252 for fiscal 2007 due primarily to lower capital expenditures and a net increase in the proceeds on sales of investment securities, partially offset by the funding of the Qualis, Inc. asset acquisition in the first quarter of fiscal 2008.

Year-to-date capital expenditures for facilities and equipment were for normal replacement and productivity enhancements. Capital expenditures are anticipated to be $40,000 to $50,000 for fiscal 2008.

Year-to-date net cash used for financing activities increased $63,289 to $40,010 for fiscal 2008 compared to cash provided from financing activities of $23,279 for fiscal 2007. The increase in cash used for financing activities was due primarily to increased repurchases of common stock, increased re-payments of short and long-term debt and decreased borrowings of long-term debt, which were slightly offset by increased cash generated from the issuance of common stock.

The Company repurchased 1,061 shares of its common stock for $31,137 and 251 shares for $4,309 during the second quarter of fiscal 2008 and 2007, respectively. Year-to-date, the Company repurchased 1,263 shares of its common stock for $35,417 and 961 shares for $15,547 in fiscal 2008 and 2007, respectively. Private party transactions accounted for 28 shares and 5 shares in the second quarter of fiscal 2008 and 2007, respectively. Year-to-date, private party transactions accounted for 28 shares and 18 shares in fiscal 2008 and 2007, respectively.

The Company paid quarterly dividends totaling $8,898 and $8,116, or $0.095 and

$0.0875 per share, for the first half of fiscal 2008 and 2007, respectively. The declaration and payment of dividends, if any, is subject to the discretion of the Board of Directors and will depend on the earnings, financial condition and capital and surplus requirements of the Company and other factors the Board of Directors may consider relevant.

GUARANTIES AND CONTRACTUAL OBLIGATIONS

The Company's Israeli subsidiary has provided a guaranty to a bank to secure the debt of a 50% owned joint venture for approximately $500, not to exceed 50% of the joint venture's debt, that is not recorded on the Company's condensed consolidated balance sheets as of December 29, 2007.

During the second quarter of fiscal 2008, no material change in contractual obligations occurred.

CRITICAL ACCOUNTING POLICIES

Determination of certain amounts in the Company's financial statements requires the use of estimates. These estimates are based upon the Company's historical experiences combined with management's understanding of current facts and circumstances. Although the estimates are considered reasonable, actual results could differ from the estimates. The accounting policies, discussed below, are considered by management to require the most judgment and are critical in the preparation of the financial statements. These policies are reviewed by the Audit Committee. Other significant accounting policies are included in Note A of the notes to the consolidated financial statements in the Company's annual report on Form 10-K for the fiscal year ended June 30, 2007.

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

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

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

Rebates are payments issued to the customer when certain criteria are met, which may include specific levels of product purchases, introduction of new products or other objectives. The accrual for rebates is based on contractual agreements and estimated purchasing levels by customers with such programs. Medicaid rebates are payments made to states for pharmaceutical products covered by the

program. The accrual for Medicaid rebates is based on historical trends of rebates paid and current period sales activity.

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

Changes in these estimates and assumptions related to customer programs may result in additional accruals. The following table summarizes the activity included in the balance sheet for accounts receivable allowances and customer program accruals:

	Year-to-Date 2008	Year-to-Date 2007
CUSTOMER RELATED ACCRUALS		
Balance, beginning of period	$ 51,656	$ 54,456
Provision recorded	123,433	97,125
Credits processed	(123,293)	(103,676)
Balance, end of the period	$ 51,796	$ 47,905

Allowance for Doubtful Accounts - The Company maintains an allowance for doubtful accounts that reduces receivables to amounts that are expected to be collected. In estimating the allowance, management considers factors such as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance, historical experience with write-offs and the level of past-due amounts. Changes in these conditions may result in additional allowances. The allowance for doubtful accounts was $8,944 at December 29, 2007, $9,421 at June 30, 2007 and $12,198 at December 30, 2006.

Allowance for Inventory - The Company maintains an allowance for estimated obsolete or unmarketable inventory based on the difference between the cost of the inventory and its estimated market value. In estimating the allowance, management considers factors such as excess or slow moving inventories, product expiration dating, products on quality hold, current and future customer demand and market conditions. Changes in these conditions may result in additional allowances. The allowance for inventory was $36,184 at December 29, 2007, $36,210 at June 30, 2007 and $39,098 at December 30, 2006.

Goodwill - Goodwill is tested for impairment annually or more frequently if changes in circumstances or the occurrence of events suggest impairment exists. The test for impairment requires the Company to make several estimates about fair value, most of which are based on projected future cash flows. The estimates associated with the goodwill impairment tests are considered critical due to the judgments required in determining fair value amounts, including projected future cash flows. Changes in these estimates may result in the recognition of an impairment loss. Goodwill allocated to the Consumer Healthcare

segment is tested annually for impairment in the second quarter of the fiscal year. The current year testing resulted in no impairment charge related to the Consumer Healthcare segment. The goodwill allocated to the API and Rx Pharmaceuticals segments is tested for impairment annually in the third quarter of the fiscal year. The Company's API business is heavily dependent on new products currently under development. Although not anticipated at this time, the termination of certain key product development projects could have a materially adverse impact on the future results of the API segment, which may include a charge for goodwill impairment. Goodwill was $212,934 at December 29, 2007, $196,218 at June 30, 2007 and $188,272 at December 30, 2006.

Other Intangible Assets - Other intangible assets subject to amortization consist of developed product technology / formulation, distribution and license agreements, customer relationships and trademarks. Most of these assets are related to the Agis acquisition and are amortized over their estimated useful economic lives using the straight-line method. An accelerated method of amortization is used for customer relationships. For intangible assets subject to amortization, an impairment analysis is performed whenever events or changes in circumstances indicate that the carrying amount of the assets may not be

recoverable. An impairment loss is recognized if the carrying amount of the asset is not recoverable and its carrying amount exceeds its fair value. Other intangible assets had a net carrying value of $191,430 at December 29, 2007, $159,977 at June 30, 2007 and $137,921 at December 30, 2006.

Product Liability and Workers' Compensation - The Company maintains accruals to provide for claims incurred that are related to product liability and workers' compensation. In estimating these accruals, management considers actuarial valuations of exposure based on loss experience. These actuarial valuations include significant estimates and assumptions, including, but not limited to, loss development, interest rates, product sales, litigation costs, accident severity and payroll expenses. Changes in these estimates and assumptions may result in additional accruals. The accrual for product liability claims was $2,573 at December 29, 2007, $2,641 at June 30, 2007 and $2,926 at December 30, 2006. The accrual for workers' compensation claims was $1,467 at December 29, 2007, $1,391 at June 30, 2007 and $1,662 at December 30, 2006.

Income Taxes - The Company's effective income tax rate is based on income, statutory tax rates, special tax benefits and tax planning opportunities available to the Company in the various jurisdictions in which it operates. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining the Company's tax expense and in evaluating tax positions. Tax positions are reviewed quarterly and balances are adjusted as new information becomes available.

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

Significant judgment is required in determining the Company's contingent tax

liabilities. The Company has established contingent tax liabilities using management's best judgment and adjusts these liabilities as warranted by changing facts and circumstances. A change in tax liabilities in any given period could have a significant impact on the Company's results of operations and cash flows for that period.

Item 3. Quantitative and Qualitative Disclosures About Market Risks (dollars in thousands)

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

The Company is exposed to interest rate changes primarily as a result of interest expense on borrowings used to finance the Agis acquisition and working capital requirements and interest income earned on its investment of cash on hand. As of December 29, 2007, the Company had invested cash, cash equivalents and investment securities of $101,805 and short and long-term debt, net of restricted cash, of $268,553.

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

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

Item 4. Controls and Procedures

As of December 29, 2007, 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 December 29, 2007 were identified that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors (dollars in thousands)

The Company's Annual Report on Form 10-K filed for the fiscal year ended June 30, 2007 includes a detailed discussion of the Company's risk factors. Other than the items noted below, there have been no material changes to the risk factors that were included in the Form 10-K during the first half of fiscal 2008.

Regulatory Environment

The Non-Prescription Drug Advisory Committee ("NDAC") met on October 18-19, 2007 in response to a March 2007 Citizen's Petition that recommended, among other things, the withdrawal of cough and cold products for use in children six years of age and younger. At the NDAC meeting, the panel recommended to the FDA that cough and cold products not be used for children under two years of age. Manufacturers, including Perrigo, withdrew products specifically marketed to infants from the market prior to the NDAC meeting. The impact on the Company of withdrawing these products from the market was immaterial. In addition, the panel recommended clinical studies be conducted on the use of these products for children ages two to under twelve and that certain label changes be made for cough and cold products. The panel was divided on the issue of whether or not cough and cold products should be marketed to children under six years of age. The recommendations by the NDAC are not binding on the FDA.

On January 17, 2008, the FDA issued a Public Health Advisory recommending that cough and cold products not be used for children under two years of age and stating that it strongly supported the actions of many pharmaceutical manufacturers to voluntarily withdraw from the market cough and cold products for use in that age group. Further, the FDA has assembled a working group to review the OTC monograph for cough and cold medicines for children ages two to under twelve. The FDA has indicated that it will make recommendations this spring on the use of these medicines in that age group. The FDA has also indicated that the recommendations could include removing pediatric cough and cold products from the marketplace altogether by issuing a proposed rule recommending OTC cough and cold products for children under twelve not be generally recognized as safe and effective.

It is not known at this time what, if any, further action the FDA or industry will take in response to recommendations of the NDAC. Certain actions by the FDA, such as removing children's cough and cold products from the marketplace, or mandating label and packaging changes, could have an adverse effect on the operating results of the Company.

The Company's fiscal 2007 revenues for cough and cold products marketed solely for use in children ages two to under twelve years old were approximately $12,000.

The FDA held a public meeting on November 14, 2007 to explore the public health benefit of creating a

new Behind-The-Counter ("BTC") class of drugs. Drugs placed in this category would be available without a prescription, but only after intervention by a pharmacist. It is not known at this time what, if any, action the FDA will take in response to this issue. Certain actions by the FDA, such as moving certain OTC products to BTC, could have a material adverse effect on the operating results of the Company.

All facilities where Rx and OTC drugs are manufactured, tested, packaged, stored or distributed must comply with FDA "Current Good Manufacturing Practices" (cGMPs). All of the Company's ANDA, NDA and OTC drug products are manufactured, tested, packaged, stored and distributed according to cGMP regulations. Effective June 25, 2008, all facilities where dietary supplements are manufactured, tested, packaged, stored or distributed must comply with the final Good Manufacturing Practice regulations for dietary supplements published in the Federal Register on June 25, 2007. The FDA performs periodic audits to ensure that the Company's facilities remain in compliance with all appropriate regulations. The failure of a facility to be in compliance may lead to a breach of representations made to store brand customers or to regulatory action against the products made in that facility, including seizure, injunction or recall.

Dextromethorphan

The Company manufactures several products that contain the active ingredient dextromethorphan which is indicated for cough suppression. Dextromethorphan has come under scrutiny because of its potential to be abused. Some states have introduced legislation that, if passed, could require restricted access to dextromethorphan in finished dosage forms. Such legislation placing age restrictions on the purchase of OTC products containing dextromethorphan was passed at the local level by Suffolk County, New York and by the City of Jerseyville, Illinois. At least one state has passed legislation restricting the bulk sale of dextromethorphan. Similarly, on the federal level, the U.S. House of Representatives passed the Dextromethorphan Distribution Act of 2007, which prohibits the illicit distribution of bulk, unfinished dextromethorphan to any person other than FDA-registered producers of drugs and devices. The legislation is now pending consideration by the U.S. Senate, where a companion bill has been introduced.

In October of 2007, the Dextromethorphan Abuse Reduction Act of 2007 was introduced, which would prevent teens under the age of 18 from purchasing OTC cough medicine containing dextromethorphan in finished dosages and concentrations. Legislation imposing similar age restrictions on purchases of dextromethorphan in finished dosages has also been introduced by at least one state. It is possible that any of the states or the federal government could introduce and pass legislation imposing additional or different restrictions on the sale of dextromethorphan in finished dosage form, including but not limited to, requiring a minimum age to purchase product, limiting the amount a consumer may purchase, requiring a prescription and/or placing the product in a more controlled position of sale behind the pharmacy counter of a retailer. Products containing dextromethorphan generated revenues of approximately $49,000 in the first half of fiscal 2008 and $68,000 in the full 2007 fiscal year. The Company cannot predict whether any of the proposed legislation will be passed or, if it is passed, its impact on future revenues attributable to these products.

Phenylephrine

The NDAC also met on December 14, 2007 to discuss the efficacy and safety of phenylephrine, an active ingredient used in various cough and cold products as a decongestant. The NDAC vote recommended that available data "is supportive" of the effectiveness of phenylephrine at 10 milligrams. In addition, the NDAC recommended additional studies to assess the efficacy and safety of a 25 milligram dose of phenylephrine. The recommendations by the NDAC are not binding on the FDA. It is not known at this time what, if any, further action the FDA or industry will take in response to recommendations of the NDAC. Certain actions by the FDA, such as mandating label and packaging changes, could have an adverse effect on the operating results of the Company.

Healthcare and Legal Reforms

In July 2007, the Centers for Medicare & Medicaid Services (CMS) issued a final rule for the calculation of the Average Manufacturer Price (AMP), which pharmaceutical companies are required to report to the CMS. The CMS intends to now use this calculation to help determine reimbursements to pharmacies that dispense medicines to Medicaid beneficiaries. Prior to this ruling, the CMS used the Average Wholesaler Price (AWP) in the calculation of the reimbursement. Additionally, the CMS has decided to publish manufacturer-specific AMP data. In mid-December 2007, a preliminary injunction was granted, resulting in postponement of the actual implementation of the rule. The next court hearing is expected to be before the end of February 2008. The Company does not know how the new reimbursement model will affect the Company's pharmacy customers and to what extent these customers will seek to pass on any increased Medicaid costs to the Company. It is also unknown how this will impact consumers' access to generic medicines, which could significantly affect the market for these products. The Company does not know how the sharing of manufacturer-specific data may impact competition in the marketplace.

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

On February 8, 2007, the Board of Directors approved a plan to repurchase shares of common stock with a value of up to $60,000. This plan will expire on February 9, 2009. The Company has a 10b5-1 plan that allows brokers selected by the Company to repurchase shares on behalf of the Company at times when it would ordinarily not be in the market because of the Company's trading policies. The amount of common stock repurchased in accordance with the 10b5-1 plan on any given day is determined by the plan's formula, which is generally based on the market price of the Company's stock. All common stock repurchased 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:

	Total Number of Shares	Average Price Paid	Total Number of Shares Purchased as Part of	Value of Availabl

Fiscal 2008	Purchased (1)	per Share	Publicly Announced Plans	Purch
				$52,5
September 30 to November 3	220	$22.35	192	$48,2
November 4 to December 1	471	$30.24	471	$34,0
December 2 to December 29	370	$32.35	370	$22,0
Total	1,061		1,033	

(1) Private party transactions accounted for the purchase of 28 shares in the period from September 30 to November 3.

On February 1, 2008, the Board of Directors approved a plan to repurchase additional shares of common stock with a value of up to $150,000. This plan will expire on February 2, 2010.

Item 4. Submission of Matters to a Vote of Security Holders

At the Company's Annual Shareholders' Meeting held on October 30, 2007, the Company's shareholders voted on the following matter:

1. Election of three directors of the Company:

The tabulation of votes provided by the Inspector of Election was as follows:

Nominee	For	Withheld
Laurie Brlas	76,349,618	7,420,414
Michael J. Jandernoa	61,606,162	22,163,870
Joseph C. Papa	79,319,621	4,450,411

Item 6. Exhibits

Exhibit Number	Description
3.1	Registrant's Bylaws, as amended as of October 30, 2007, incorporated by reference from Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on November 2, 2007.
10.2	Registrant's Nonqualified Deferred Compensation Plan, as amended as of October 10, 2007 and effective January 1, 2007, incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 11, 2007.
31	Rule 13a-14(a) Certifications.
32	Section 1350 Certifications.

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: February 5, 2008

By: /s/ Joseph C. Papa

Joseph C. Papa
President and Chief Executive Officer

Date: February 5, 2008

By: /s/ Judy L. Brown

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