

PERRIGO CO
Form 10-Q
November 06, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended: September 27, 2008

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number 0-19725

PERRIGO COMPANY

(Exact name of registrant as specified in its charter)

Michigan
(State or other jurisdiction of
incorporation or organization)

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

515 Eastern Avenue

Allegan, Michigan
(Address of principal

49010
(Zip Code)

executive offices)

(269) 673-8451

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year,

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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 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 October 31, 2008, the registrant had 92,269,484 outstanding shares of common stock.

PERRIGO COMPANY

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Cautionary Note Regarding Forward-Looking Statements

Certain statements in this report are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created thereby. These statements relate to future events or the Company's future financial performance and involve known and unknown risks, uncertainties and other factors that may cause the actual results, levels of activity, performance or achievements of the Company or its industry to be materially different from those expressed or implied by any forward-looking statements. In particular, statements about the Company's expectations, beliefs, plans, objectives, assumptions, future events or future performance contained in this report, including certain statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as may, will, could, would, should, expect, plan, anticipate, intend, believe, estimate, predict, potential or the negative or comparable terminology. Please see Item 1A of the Company's Form 10-K for the year ended June 28, 2008 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)

	First Quarter	
	2009	2008
Net sales	\$ 480,236	\$ 382,740
Cost of sales	336,021	265,469
Gross profit	144,215	117,271
Operating expenses		
Distribution	7,969	7,074
Research and development	18,224	16,320
Selling and administration	59,341	47,218
Total	85,534	70,612
Operating income	58,681	46,659
Interest, net	5,846	4,655
Other (income) expense, net	115	(573)
Income before income taxes	52,720	42,577
Income tax expense	14,762	8,558
Net income	\$ 37,958	\$ 34,019
Earnings per share		
Basic	\$ 0.41	\$ 0.37
Diluted	\$ 0.40	\$ 0.36
Weighted average shares outstanding		
Basic	92,787	93,142
Diluted	94,568	94,884
Dividends declared per share	\$ 0.050	\$ 0.045

See accompanying notes to condensed consolidated financial statements.

PERRIGO COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	September 27, 2008 (unaudited)	June 28, 2008	September 29, 2007 (unaudited)
Assets			
Current assets			
Cash and cash equivalents	\$ 249,328	\$ 318,604	\$ 46,837
Investment securities	14	560	32,487
Accounts receivable, net	340,138	350,272	283,443
Inventories	448,386	399,972	314,597
Current deferred income taxes	44,477	43,342	41,372
Income taxes refundable	468	6,883	5,596
Prepaid expenses and other current assets	25,863	37,226	23,010
Total current assets	1,108,674	1,156,859	747,342
Property and equipment	747,235	745,840	665,239
Less accumulated depreciation	(381,468)	(388,945)	(343,033)
	365,767	356,895	322,206
Restricted cash	400,000	400,000	400,000
Goodwill	262,195	282,417	199,730
Other intangible assets	223,460	229,327	187,467
Non-current deferred income taxes	63,130	74,737	49,184
Other non-current assets	70,145	74,842	40,723
	\$ 2,493,371	\$ 2,575,077	\$ 1,946,652
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable	\$ 270,614	\$ 253,307	\$ 170,639
Notes payable			11,677
Payroll and related taxes	51,506	77,140	38,425
Accrued customer programs	50,025	53,668	48,638
Accrued liabilities	52,703	56,958	44,142
Current deferred income taxes	18,839	24,493	15,214
Current portion of long-term debt	21,163	20,095	15,314
Total current liabilities	464,850	485,661	344,049
Non-current liabilities			
Long-term debt	893,433	895,095	642,629
Non-current deferred income taxes	130,234	139,212	101,424
Other non-current liabilities	116,596	121,394	87,324
Total non-current liabilities	1,140,263	1,155,701	831,377
Shareholders' equity			
Preferred stock, without par value, 10,000 shares authorized			
Common stock, without par value, 200,000 shares authorized	468,798	488,537	521,117
Accumulated other comprehensive income	96,167	155,184	47,864
Retained earnings	323,293	289,994	202,245
Total shareholders' equity	888,258	933,715	771,226

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	\$ 2,493,371	\$ 2,575,077	\$ 1,946,652
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Supplemental Disclosures of Balance Sheet Information

Allowance for doubtful accounts	\$ 9,531	\$ 9,931	\$ 8,622
Working capital	\$ 643,824	\$ 671,198	\$ 403,293
Preferred stock, shares issued			
Common stock, shares issued	92,891	93,311	93,566

See accompanying notes to condensed consolidated financial statements.

PERRIGO COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	First Quarter	
	2009	2008
Cash Flows (For) From Operating Activities		
Net income	\$ 37,958	\$ 34,019
Adjustments to derive cash flows		
Depreciation and amortization	16,767	15,570
Share-based compensation	2,754	1,958
Income tax benefit from exercise of stock options	345	705
Excess tax benefit of stock transactions	(1,685)	(570)
Deferred income taxes	(13,677)	710
Sub-total	42,462	52,392
Changes in operating assets and liabilities, net of asset and business acquisitions and restructuring		
Accounts receivable	15,669	(3,389)
Inventories	(40,317)	(21,356)
Income taxes refundable	(468)	(6,883)
Accounts payable	7,259	7,665
Payroll and related taxes	(29,037)	(7,437)
Accrued customer programs	(3,643)	420
Accrued liabilities	(4,471)	(3,584)
Accrued income taxes	6,228	9,729
Other	7,285	(563)
Sub-total	(41,495)	(25,398)
Net cash from operating activities	967	26,994
Cash Flows (For) From Investing Activities		
Purchase of securities		(73,418)
Proceeds from sales of securities		89,182
Cash acquired in asset exchange	2,115	
Acquisition of business, net of cash acquired	(14,839)	
Acquisition of intangible assets	(1,000)	(12,401)
Additions to property and equipment	(5,913)	(4,364)
Net cash for investing activities	(19,637)	(1,001)
Cash Flows (For) From Financing Activities		
Repayments of short-term debt, net	(11,006)	(99)
Borrowings of long-term debt		30,000
Repayments of long-term debt	(14,287)	(38,000)
Excess tax benefit of stock transactions	1,685	570
Issuance of common stock	5,481	4,155
Repurchase of common stock	(29,314)	(4,280)
Cash dividends	(4,659)	(4,214)
Net cash for financing activities	(52,100)	(11,868)

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Net increase (decrease) in cash and cash equivalents	(70,770)	14,125
Cash and cash equivalents, at beginning of period	318,604	30,305
Effect of exchange rate changes on cash	1,494	2,407

Cash and cash equivalents, at end of period	\$ 249,328	\$ 46,837
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Supplemental Disclosures of Cash Flow Information

Cash paid/received during the period for:

Interest paid	\$ 9,860	\$ 11,254
Interest received	\$ 7,209	\$ 5,189
Income taxes paid	\$ 12,050	\$ 3,612
Income taxes refunded	\$ 1,016	\$ 1,003

See accompanying notes to condensed consolidated financial statements.

PERRIGO COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 27, 2008

(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 (Rx) 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 U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and other adjustments) considered necessary for a fair presentation have been included. The Company has reclassified certain 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 quarter ended September 27, 2008 are not necessarily indicative of the results that may be expected for a full year. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended June 28, 2008.

Recently Issued Accounting Standards

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

In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 157-2, Effective Date of FASB Statement No. 157, which delayed the effective date of SFAS 157 for certain nonfinancial assets and liabilities that are recognized at fair value on a nonrecurring basis (at least annually) until fiscal years beginning after November 15, 2008. The Company does not expect the adoption of this Statement to have a material impact on its consolidated results or operations or its financial position.

On October 10, 2008, the FASB issued FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP FAS 157-3), which clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP was effective upon issuance, including prior periods for which financial statements had not been issued. See Note D for more information pertaining to the adoption of this FSP and its effect on the Company's condensed consolidated financial statements.

NOTE B ACQUISITIONS

JB Laboratories On September 16, 2008, the Company acquired JB Laboratories, a privately-held contract manufacturer of OTC and nutrition products for leading healthcare suppliers, for \$43,605, including debt assumed. The acquisition of JB Laboratories is expected to provide increased sales revenue and additional FDA-compliant production capacity to help service current and future customer needs. The Company paid \$15,582 in cash, including acquisition costs of \$436, and assumed \$28,023 of existing debt, of which \$25,293 was repaid immediately and the remaining \$2,730 is expected to be repaid in the second quarter of fiscal 2009. The acquisition was accounted for under the purchase method of accounting. The JB Laboratories balance sheet is included in the Company's condensed consolidated balance sheet as of September 27, 2008. The operating results for JB Laboratories from the date of acquisition to the end of the first quarter were immaterial and will be included in the Consumer Healthcare segment of the Company's consolidated results of operations beginning in its second quarter of fiscal 2009. Prior to the acquisition, JB Laboratories' fiscal year began January 1 and ended December 31. After the acquisition, for purposes of consolidation, JB Laboratories' fiscal year is the same as the Company's fiscal year. Pro forma results of operations have not been presented because the effects of JB Laboratories were not material to the Company's condensed consolidated financial statements.

The purchase price through September 27, 2008 was \$43,605 and was preliminarily allocated as follows:

Cash	\$ 743
Accounts receivable	5,989
Inventory	12,159
Property and equipment	34,444
Other assets	971
Intangible assets	1,575
Goodwill	5,483
 Total assets acquired	 61,364
 Accounts payable	 10,207
Other current liabilities	2,805
Notes payable	11,006
Long-term debt	17,017
Deferred tax liabilities	4,747
 Total liabilities assumed	 45,782
Net assets acquired	15,582
 JB Laboratories debt assumed on the closing date	 28,023
 Total purchase consideration	 \$ 43,605

In connection with the acquisition, the Company accrued \$795 for estimated restructuring costs. Management is currently evaluating the future use of certain facilities for their strategic value, which may result in additional restructuring costs. For preliminary accounting purposes, the \$795 of restructuring costs were included in the allocation of the total purchase price.

The excess of the purchase price over the fair value of net assets acquired, amounting to \$5,483, was recorded as goodwill in the condensed consolidated balance sheet and has been assigned to the Company's Consumer Healthcare segment. Goodwill is not amortized for financial reporting or tax purposes, and the goodwill assigned to the Consumer Healthcare segment is tested for impairment at least annually in the second quarter of the Company's fiscal year.

Intangible assets acquired in the acquisition were valued as follows:

Customer relationships	\$ 1,300
Non-compete agreements	275
Total intangible assets acquired	\$ 1,575

Management assigned fair value to the customer relationships and non-compete agreements through the discounted cash flow method and the lost income method, respectively. Customer relationships are based on 15-year useful lives and are amortized on an accelerated basis consistent with projected revenues over the lives of the relationships. There are two non-compete agreements; one agreement is based on a five-year useful life and the other agreement is based on a two-year useful life. Both non-compete agreements are amortized on a straight-line basis.

At the time of the acquisition, a step-up in the value of inventory of \$358 was recorded in the allocation of the purchase price based on valuation estimates, all of which is expected to be charged to cost of sales in the second quarter of fiscal 2009 as the inventory is sold. In addition, fixed assets were written up by approximately \$4,200 to their fair market value based on a valuation method that included both the cost and market approach. This additional step-up in value will be depreciated over the estimated useful lives of the assets.

Brunel Healthcare Ltd. On June 18, 2008, the Company's U.K. subsidiary acquired the assets and related liabilities of Brunel Healthcare Ltd. (Brunel), a producer of OTC healthcare products, from NeutraHealth plc in exchange for the Company's net assets of its vitamins, minerals and supplements (VMS) business. The acquisition was accounted for in accordance with Accounting Principles Bulletin No. 29 Accounting for Non-Monetary Transactions as amended by SFAS 153. The loss on exchange of the Company's U.K. VMS business was \$639. The assets of Brunel were recorded at their fair value, allocated as follows:

Cash	\$ 995
Accounts receivable	849
Inventory	812
Intangible asset - Customer relationships	15,159
Total assets acquired	17,815
Accounts payable	386
Other current liabilities	5,280
Total liabilities assumed	5,666
Net allocated fair value	\$ 12,149

Customer relationships are based on 15-year useful lives and are amortized on an accelerated basis consistent with projected revenues over the lives of the relationships. The operating results for Brunel are included in the Consumer Healthcare segment of the Company's consolidated results of operations for the period from June 18, 2008 to August 31, 2008, which, for consolidation purposes, is consistent with the reporting period for the Company's existing U.K. operations.

NOTE C EARNINGS PER SHARE

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

	First Quarter	
	2009	2008
Numerator:		
Net income used for both basic and diluted EPS	\$ 37,958	\$ 34,019
Denominator:		
Weighted average shares outstanding for basic EPS	92,787	93,142
Dilutive effect of share-based awards	1,781	1,742
Weighted average shares outstanding for diluted EPS	94,568	94,884

Share-based awards outstanding that were anti-dilutive were 91 and 128 for the first quarter of fiscal 2009 and 2008, respectively. These share-based awards were excluded from the diluted EPS calculation.

NOTE D FINANCIAL INSTRUMENTS

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

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

Level 2: Financial instruments lacking unadjusted, quoted prices from active market exchanges, including over-the-counter traded financial instruments. The prices for the financial instruments are determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

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

Effective June 29, 2008, the Company adopted the provisions of SFAS 157 and FSP FAS 157-3 for financial assets and liabilities. There was no impact to the condensed consolidated financial statements as a result of the adoption of SFAS 157 or FSP FAS 157-3, except as disclosed below. The following table summarizes the valuation of the Company's financial instruments by the above pricing categories as of September 27, 2008:

	Fair Value Measurements as of September 27, 2008			
	Total as of September 27, 2008	Quoted Prices In Active Markets (Level 1)	Prices With Other Observable Inputs (Level 2)	Prices With Unobservable Inputs (Level 3)
Financial Assets:				
Cash equivalents	\$ 130,755	\$ 130,755	\$	\$
Investment securities	14,503	14		14,489
Total	\$ 145,258	\$ 130,769	\$	\$ 14,489
Financial Liabilities:				
Foreign currency forward contracts, net	\$ 877	\$	\$ 877	\$
Interest rate swap agreements	3,227		3,227	
Deferred compensation plan	8,161	8,161		
Total	\$ 12,265	\$ 8,161	\$ 4,104	\$

The Company's investment securities include auction rate securities totaling approximately \$18,000 in par value. Auction rate securities are privately placed variable rate debt instruments whose interest rates are reset within a contractual range, approximately every 7 to 35 days. Typically, the carrying value of auction rate securities approximates their fair value due to the frequent resetting of the interest rates at auction. With the tightening of the credit markets over the last several quarters, auction rate securities have failed to settle at auction resulting in an illiquid market for these types of securities. Although the Company continues to earn and collect interest on these investments at the maximum contractual rate, the estimated fair value of auction rate securities can no longer be determined by the auction process until liquidity is restored to these markets.

At September 27, 2008, the Company continued to record these securities as available-for-sale, at a fair value of approximately \$14,500, based on, among other things, estimates provided by the firm managing these investments, and recorded an unrealized loss of approximately \$2,550, net of tax, in other comprehensive income (loss) in fiscal 2008. Beginning in the third quarter of fiscal 2008, the Company reclassified the securities from current assets to other non-current assets due to the unpredictable nature and the illiquidity of the market for the securities.

As of September 27, 2008, the Company concluded that no other-than-temporary impairment loss has occurred. The Company has the ability and intent to hold these securities for a period of time that the Company believes will be sufficient to allow for a recovery of market value. The companies underwriting these securities continue to pay the maximum interest contractually required. Although the Company cannot predict when liquidity to the auction rate securities market will be restored, the Company will continue to monitor the credit worthiness of the companies underwriting these securities.

The following table presents a rollforward of the assets measured at fair value on a recurring basis using unobservable inputs (Level 3) at September 27, 2008:

	Investment Securities (Level 3)
Balance as of June 29, 2008	\$
Transfers into Level 3	14,547
Foreign currency translation	(58)
Balance as of September 27, 2008	\$ 14,489

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

NOTE E INVENTORIES

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

	September 27, 2008	June 28, 2008	September 29, 2007
Finished goods	\$ 188,550	\$ 175,584	\$ 150,772
Work in process	115,107	107,874	78,702
Raw materials	144,729	116,514	85,123
Total inventories	\$ 448,386	\$ 399,972	\$ 314,597

NOTE F GOODWILL

In the first quarter of fiscal 2009, there was an addition to goodwill in the Consumer Healthcare segment related to the JB Laboratories acquisition. This addition will be included in the next annual impairment test in the second quarter of fiscal 2009. Changes in the carrying amount of goodwill, by reportable segment, were as follows:

	Consumer Healthcare	Rx Pharma- ceuticals	API	Total
Balance as of June 28, 2008	\$ 86,113	\$ 95,962	\$ 100,342	\$ 282,417
JB Laboratories acquisition	5,483			5,483
Purchase price allocation adjustment		(1,761)	1,803	42
Currency translation adjustment	(6,329)	(9,390)	(10,028)	(25,747)
Balance as of September 27, 2008	\$ 85,267	\$ 84,811	\$ 92,117	\$ 262,195

NOTE G OTHER INTANGIBLE ASSETS

Intangible assets and related accumulated amortization consisted of the following:

	September 27, 2008		June 28, 2008	
	Gross	Accumulated Amortization	Gross	Accumulated Amortization
Intangible assets subject to amortization:				
Developed product technology/formulation and product rights	\$ 210,370	\$ 43,689	\$ 226,889	\$ 43,130
Distribution and license agreements	23,391	10,608	23,344	10,213
Customer relationships	38,478	6,163	24,694	5,565
Trademarks	8,982	1,941	11,275	2,662
Non-compete agreements	275			
Total	281,496	62,401	286,202	61,570
Intangible assets not subject to amortization:				
Trade names and trademarks	4,365		4,695	
Total intangible assets	\$ 285,861	\$ 62,401	\$ 290,897	\$ 61,570

As of September 27, 2008, customer relationships included additions made during the first quarter of fiscal 2009 that were attributable to the acquisitions of JB Laboratories and Brunel - see Note B.

The Company recorded amortization expense of \$5,625 and \$4,379 for the first quarter of fiscal 2009 and 2008, respectively, for intangible assets subject to amortization.

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

Fiscal Year	Amount
2009 ⁽¹⁾	\$ 16,000
2010	19,500
2011	18,000
2012	18,000
2013	18,000

⁽¹⁾ Reflects remaining nine months of fiscal 2009.

NOTE H OUTSTANDING DEBT

Total borrowings outstanding are summarized as follows:

	September 27, 2008	June 28, 2008	September 29, 2007
Short-term debt:			
Swingline loan	\$	\$	\$ 11,677
Current portion of long-term debt	21,163	20,095	15,314
Total	21,163	20,095	26,991
Long-term debt:			
Revolving line of credit	50,000	50,000	112,000
Term loans	225,000	225,000	100,000
Senior notes	200,000	200,000	
Letter of undertaking Israeli subsidiary	400,000	400,000	400,000
Debenture Israeli subsidiary	18,433	20,095	30,629
Total	893,433	895,095	642,629
Total debt	\$ 914,596	\$ 915,190	\$ 669,620

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

NOTE I 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 832 shares of its common stock for \$29,314 and 202 shares for \$4,280 during the first quarter of fiscal 2009 and 2008, respectively. There were no private party transactions in the first quarter of fiscal 2009 or 2008.

NOTE J COMPREHENSIVE INCOME (LOSS)

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

	First Quarter	
	2009	2008
Net income	\$ 37,958	\$ 34,019
Other comprehensive income (loss):		
Change in fair value of derivative instruments, net of tax	201	(1,662)
Foreign currency translation adjustments	(59,106)	(7,150)
Post-retirement liability adjustments, net of tax	(112)	
Comprehensive income (loss)	\$ (21,059)	\$ 25,207

The increase in foreign currency translation adjustments was driven primarily by the strengthening of the U.S. dollar against the Israeli shekel and the British pound sterling during the first quarter of fiscal 2009.

NOTE K INCOME TAXES

The recorded effective tax rate for the first quarter was 28.0% for fiscal 2009 compared with the actual rate of 20.1% for fiscal 2008. Foreign source income before tax for the first quarter was 20% in fiscal 2009, down from 54% in the same period of fiscal 2008. Foreign source income is generally derived from jurisdictions with a lower tax rate than the U.S. statutory rate, and as a result, the first quarter fiscal 2009 effective tax rate was higher than the comparable quarter of the prior year. During the first quarter of fiscal 2008, the Company received a favorable tax ruling in Israel that resulted in a one-time benefit of \$4,222. The recorded effective tax rate for the quarter is based on the Company's estimated annual worldwide effective tax rate. This rate is subject to adjustment over the balance of the fiscal year due to, among other things, changes in revenue mix and unanticipated changes in applicable tax laws.

The net change in the reserves for uncertain tax liabilities, as recorded in accordance with FASB Interpretation 48, was not material in the first quarter of fiscal 2009.

NOTE L COMMITMENTS AND CONTINGENCIES

In March and June of 2007, lawsuits were filed by three separate groups against both the State of Israel and the Council of Ramat Hovav in connection with waste disposal and pollution from several companies, including the Company, that have operations in the Ramat Hovav region of Israel. In June 2008, the Council of Ramat Hovav asserted third party claims in the aggregate amount of approximately \$74,800 against several companies, including the Company, based upon these lawsuits. At this time, the Company cannot reasonably predict 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. 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 provides a guaranty to a bank to secure the debt of a 50% owned joint venture for approximately \$500, not to exceed 50% of the joint venture's debt, that is not recorded on the Company's condensed consolidated balance sheet as of September 27, 2008.

NOTE M 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. Fiscal 2008 unallocated expenses included a one-time reduction of \$1,900 in administrative costs due to the settlement of a pre-acquisition legal claim related to Agis Industries (1983) Ltd. (Agis).

	Consumer Healthcare	Rx Pharma- ceuticals	API	Other	Unallocated expenses	Total
First Quarter 2009						
Net sales	\$ 366,202	\$ 33,175	\$ 34,2			