KING PHARMACEUTICALS INC
Form 10-Q
May 15, 2002

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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

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 NO. 0-24425

KING PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

TENNESSEE	54-1684963
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
501 FIFTH STREET, BRISTOL, TN	37620
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (423) 989-8000

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 (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Number of shares outstanding of Registrant's common stock as of May 6, 2002: 247,990,894

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KING PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(IN THOUSANDS)

	MARCH 31, 2002	DECEMBER 31, 2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 696,572	$ 874,602
Marketable securities	307,634	49,880
Accounts receivable, net of allowance for doubtful accounts of $7,080 and $6,047	182,011	161,864
Inventories	130,527	111,578
Deferred income taxes	31,556	31,556
Prepaid expenses and other current assets	9,700	8,079
Total current assets	1,358,000	1,237,559
Property, plant and equipment, net	167,669	164,116
Intangible assets, net	1,026,704	1,037,795
Other assets	67,287	67,141
Total assets	$2,619,660	$2,506,611
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 21,170	$ 22,870
Accrued expenses	122,018	119,498
Income taxes payable	48,793	7,718
Current portion of long-term debt	1,348	1,357
Total current liabilities	193,329	151,443
Long-term debt:		
Convertible debentures	345,000	345,000
Senior subordinated notes	93	93
Other	1,237	1,304
Deferred income taxes	37,021	37,021
Other liabilities	61,194	63,466
Total liabilities	637,874	598,327
Commitments and contingencies (note 6)		
Shareholders' equity	1,981,786	1,908,284
Total liabilities and shareholders' equity	$2,619,660	$2,506,611

See accompanying notes.

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KING PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
Revenues:		
Net sales	$246,556	$169,900
Royalty revenue	11,509	11,417
Total revenues	258,065	181,317
Operating costs and expenses:		
Cost of revenues, including royalty expense of $2,041, and $2,847	48,108	37,416
Selling, general and administrative	40,614	37,795
Co-promotion fees	37,851	17,464
Total selling, general and administrative expenses	78,465	55,259
Depreciation and amortization	13,588	11,375
Research and development	5,643	4,015
Total operating costs and expenses	145,804	108,065
Operating income	112,261	73,252
Other income (expense):		
Interest income	4,658	2,509
Interest expense	(2,750)	(2,867)
Other, net	(783)	(1,571)
Total other income (expense)	1,125	(1,929)
Income before income taxes and cumulative effect of change in accounting principle	113,386	71,323
Income tax expense	(42,066)	(26,604)
Income before cumulative effect of change in accounting principle	71,320	44,719
Cumulative effect of change in accounting principle, net of income taxes of $325	--	(545)
Net income	$ 71,320	$ 44,174
Income per common share:		
Basic:		
Income before cumulative effect of change in accounting principle	$ 0.29	$ 0.19

Cumulative effect of change in accounting principle....	--	--
Net income.....	$ 0.29	$ 0.19
Diluted:		
Income before cumulative effect of change in accounting principle.....	$ 0.29	$ 0.19
Cumulative effect of change in accounting principle....	--	--
Net income.....	$ 0.29	$ 0.19

See accompanying notes.

KING PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND OTHER COMPREHENSIVE INCOME
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE DATA)

	SHARES	AMOUNT	RETAINED EARNINGS	TOTAL
Balance at December 31, 2001.....	247,692,984	$1,361,563	$546,721	$1,908,28
Net income and total comprehensive income.....	--	--	71,320	71,32
Exercise of stock options.....	221,986	2,182	--	2,18
Balance at March 31, 2002.....	247,914,970	$1,363,745	$618,041	$1,981,78

See accompanying notes.

KING PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
Cash flows from operating activities.....	$ 84,181	$ 95,767
Cash flows from investing activities:		
Loans receivable.....	--	(5,000)

Purchases of property, plant and equipment	(10,779)	(7,041)
Proceeds from sale of product rights	--	3,332
Proceeds from sale of property and equipment	4,309	43
Purchases of marketable securities	(257,754)	--
Net cash used in investing activities	(264,224)	(8,666)
Cash flows from financing activities:		
Proceeds from issuance of common shares and exercise of stock options, net	2,182	5,741
Payments on other long-term debt and capital lease obligations	(76)	(115)
Other	(93)	(34)
Net cash provided by financing activities	2,013	5,592
(Decrease) increase in cash and cash equivalents	(178,030)	92,693
Cash and cash equivalents, beginning of period	874,602	76,395
Cash and cash equivalents, end of period	$ 696,572	$169,088

See accompanying notes.

KING PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002 AND 2001
(UNAUDITED)
(IN THOUSANDS)

1. GENERAL

The accompanying unaudited interim condensed consolidated financial statements of King Pharmaceuticals, Inc. (the "Company") have been prepared by the Company in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and 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 items of a normal recurring nature) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. These interim statements should be read in conjunction with the financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K. The year-end condensed balance sheet was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles.

These consolidated financial statements include the accounts of King and its wholly owned subsidiaries, Monarch Pharmaceuticals, Inc.; Parkedale Pharmaceuticals, Inc.; King Pharmaceuticals Research and Development, Inc.; Jones Pharma Incorporated; and King Pharmaceuticals of Nevada, Inc. All intercompany transactions and balances have been eliminated in consolidation.

Certain amounts from the prior consolidated financial statements have been reclassified to conform to the presentation adopted in 2002.

The Company had no significant amounts of "other comprehensive income" for

the three months ended March 31, 2002.

2. EARNINGS PER SHARE

The basic and diluted income per common share was determined using the following share data:

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
Basic income per common share:		
Weighted average common shares	247,832	228,057
Diluted income per common share:		
Weighted average common shares	247,832	228,057
Effect of stock options	1,902	2,608
Weighted average common shares plus assumed conversions	249,734	230,665

KING PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(UNAUDITED)

3. INVENTORIES

Inventories consist of the following:

	MARCH 31, 2002	DECEMBER 31, 2001
Finished goods (including $20,245 and $18,426 of sample inventory, respectively)	$ 85,456	$ 74,471
Work-in-process	12,310	9,424
Raw materials	32,761	27,683
	$130,527	$111,578

4. ACQUISITIONS/INTANGIBLE ASSETS

On August 8, 2001, the Company acquired three branded pharmaceutical products and a fully paid license to a fourth product from Bristol-Myers Squibb ("BMS") for $285.0 million plus approximately $1.5 million of expenses. The products acquired include BMS's rights in the United States to Corzide(C), Delestrogen(C), and Florinef(C). King also acquired a fully paid license to and trademark for Corgard(C) in the United States. The acquisition was financed with a combination of borrowings under its senior secured credit facility and cash on hand.

The following unaudited pro forma summary presents the financial information as if the acquisition of the Corzide(R), Delestrogen(R), Florinef(R) and Corgard(R) product lines had occurred as of January 1, 2001. These pro forma results have been prepared for comparative purposes and do not purport to be indicative of what would have occurred had the acquisition been made on January 1, 2001, nor is it indicative of future results.

	THREE MONTHS ENDED MARCH 31, 2001
Net revenues	$188,849
Income before cumulative effect of change in accounting principle	$ 45,183
Basic income per common share	$ 0.20
Diluted income per common share	$ 0.20

5. ACCOUNTING DEVELOPMENTS

The results for the quarter ended March 31, 2002, include the effect of adopting Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets". SFAS No. 141 provides that all business combinations initiated after June 30, 2001 shall be accounted for using the purchase method. In addition, it provides that the cost of an acquired entity must be allocated to the assets acquired, including identifiable intangible assets, and liabilities assumed based on their estimated fair values at the date of acquisition. The excess cost over the fair value of the net assets acquired must be recognized as goodwill. SFAS No. 142 provides that goodwill is no longer amortized and the value of an identifiable intangible asset must be amortized over its useful life, unless the asset is determined to have an indefinite useful life. Goodwill must be tested for impairment as of the beginning of the fiscal year in which SFAS No. 142 is adopted. In accordance with SFAS No. 142, the Company has six months from the initial date of adoption to complete its impairment testing. Amounts assigned to indefinite-life intangible assets primarily represent the trade name for products acquired which meet specified criteria and have a carrying value of $19,192.

The following table reflects consolidated results adjusted as though the adoption of SFAS No. 142 occurred as of the beginning of the three-month period ended March 31, 2001:

	THREE MONTHS ENDED MARCH 31,	
	2002	2001

Net income:		
As reported:	$71,320	$44,174
Goodwill amortization	--	102
Indefinite-life intangibles amortization	--	149
As adjusted	$71,320	$44,425
Basic earnings per share:		
As reported:	$ 0.29	$ 0.19
Goodwill amortization	--	--
Indefinite-life intangibles amortization	--	--
As adjusted	$ 0.29	$ 0.19
Diluted earnings per share:		
As reported:	$ 0.29	$ 0.19
Goodwill amortization	--	--
Indefinite-life intangibles amortization	--	--
As adjusted	$ 0.29	$ 0.19

The following table reflects the components of intangible assets as of March 31, 2002:

	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
Trademarks and product rights	$1,017,456	$ 93,803
Patents	110,000	22,944
Goodwill	16,251	3,509
Other intangibles	9,527	6,274
Total intangible assets	$1,153,234	$126,530

Amortization expense for the three months ended March 31, 2002 was $11,091. Estimated annual amortization expense for each of the five succeeding fiscal years is as follows:

FISCAL YEAR ENDED DECEMBER 31:	AMOUNT
2002	$44,590
2003	44,545
2004	44,545
2005	44,454
2006	44,162

The Company's carrying value of goodwill of approximately $12,742 at March 31, 2002 is attributable to the acquisition of manufacturing facilities and

workforce. The Company has not yet completed its impairment testing of goodwill as of January 1, 2002 for the applicable reporting unit.

In the first quarter of 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS

No. 138, which establishes accounting and reporting standards for derivative instruments and hedging activities. The cumulative effect of the change in accounting principle was $0.5 million, net of income taxes of $0.3 million. In addition, the change in the value of the derivatives in the quarter ended March 31, 2001 of $1.5 million was included in other expense. The Company had no derivative financial instruments as of March 31, 2002.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations" and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. These standards were adopted by the Company effective January 1, 2002. The implementation of these standards did not have any impact on the Company's financial statements.

In May 2002, the Financial Accounting Standards Board issued SFAS No. 145, "Revision of FAS Nos. 4, 44 and 64, Amendment of FAS 13 and Technical Corrections as of April 2002." SFAS No. 145 is effective for fiscal periods beginning after May 15, 2002. The primary impact on the Company of adopting FAS 145 will be that gains and losses incurred upon the extinguishment of debt may no longer qualify for extraordinary items treatment in the income statement.

6. CONTINGENCIES

Fen/Phen Litigation

Many distributors, marketers and manufacturers of anorexigenic drugs have been subject to claims relating to the use of these drugs. Generally, the lawsuits allege that the defendants (1) misled users of the products with respect to the dangers associated with them, (2) failed to adequately test the products and (3) knew or should have known about the negative effects of the drugs, and should have informed the public about the risks of such negative effects. The actions generally have been brought by individuals in their own right and have been filed in various state and federal jurisdictions throughout the United States. They seek, among other things, compensatory and punitive damages and/or court supervised medical monitoring of persons who have ingested the product. The Company is one of many defendants in 32 lawsuits which claim damages for personal injury arising from the Company's production of the anorexigenic drug, phentermine, under contract for GlaxoSmithKline. The Company expects to be named in additional lawsuits related to the Company's production of the anorexigenic drug under contract for GlaxoSmithKline.

While the Company cannot predict the outcome of these suits, the Company believes that the claims against it are without merit and intends to vigorously pursue all defenses available to it. The Company is being indemnified in all of these suits by GlaxoSmithKline for which it manufactured the anorexigenic

product, provided that neither the lawsuits nor the associated liabilities are based upon the independent negligence or intentional acts of the Company, and intends to submit a claim for all unreimbursed costs to its product liability insurance carrier. However, in the event that GlaxoSmithKline is unable to satisfy or fulfill its obligations under the indemnity, the Company would have to defend the lawsuit and be responsible for damages, if any, which are awarded against it or for amounts in excess of the Company's product liability coverage. A reasonable estimate of possible losses related to these suits cannot be made.

In addition, Jones, a wholly-owned subsidiary of the Company is a defendant in 852 multi-defendant lawsuits involving the manufacture and sale of dexfenfluramine, fenfluramine and phentermine. These suits have been filed in various jurisdictions throughout the United States, and in each of these suits, Jones is one of many defendants, including manufacturers and other distributors of these drugs. Although Jones has not at any time manufactured dexfenfluramine, fenfluramine, or phentermine, Jones was a distributor of a generic

phentermine product, and, after the acquisition of Abana Pharmaceuticals, was a distributor of Obenix, its branded phentermine product. The plaintiffs in these cases claim injury as a result of ingesting a combination of these weight-loss drugs and are seeking compensatory and punitive damages as well as medical care and court supervised medical monitoring. The plaintiffs claim liability based on a variety of theories including but not limited to, product liability, strict liability, negligence, breach of warranty, and misrepresentation.

Jones denies any liability incident to the distribution of Obenix or its generic phentermine product and intends to pursue all defenses available to it. Jones has tendered defense of these lawsuits to its insurance carriers for handling and they are currently defending Jones in these suits. The manufacturers of fenfluramine and dexfenfluramine have settled many of these cases. In the event that Jones' insurance coverage is inadequate to satisfy any resulting liability, Jones will have to resume defense of these lawsuits and be responsible for the damages, if any, that are awarded against it.

While the Company cannot predict the outcome of these suits, management believes that the claims against Jones are without merit and intend to vigorously pursue all defenses available. The Company is unable to disclose an aggregate dollar amount of damages claimed. Many of these complaints are multi-party suits and do not state specific damage amounts. Rather, these claims typically state damages as may be determined by the court or similar language and state no specific amount of damages against Jones. The Company, at this time, cannot provide an aggregate dollar amount of damages claimed or a reasonable estimate of possible losses related to the lawsuits.

State of Wisconsin Investment Board

On November 30, 1999, the Company entered into an agreement of merger with Medco Research, Inc. ("Medco") pursuant to which the Company acquired Medco in an all stock, tax-free pooling of interests transaction, which was subject to approval by the Medco shareholders. On January 5, 2000, Medco issued to its stockholders a proxy statement with respect to the proposed transaction and noticed a meeting to approve the transaction for February 10, 2000.

On January 11, 2000, the State of Wisconsin Investment Board, ("SWIB"), a Medco shareholder which held approximately 11.6% of the outstanding stock of

Medco, filed suit on behalf of a proposed class of Medco shareholders in the Court of Chancery for the State of Delaware, New Castle County, (State of Wisconsin Investment Board v. Bartlett, et al., C.A. No. 17727), against Medco and members of Medco's board of directors to enjoin the shareholder vote on the merger and the consummation of the merger. SWIB alleged, among other things, that the proxy materials filed by Medco failed to disclose all material information and included misleading statements regarding the transaction, its negotiation, and its approval by the Medco board of directors; that the Medco directors were not adequately informed and did not adequately inform themselves of all reasonably available information before recommending the transaction to Medco shareholders; and that the Medco directors were disloyal and committed waste in allegedly enabling one of the Medco directors to negotiate the transaction purportedly for his own benefit and in agreeing to terms that precluded what the complaint alleged were more beneficial alternative transactions. SWIB also moved for a preliminary injunction to enjoin the shareholder vote and the merger based on the claims asserted in its complaint. Medco and the other defendants denied all allegations and continue to deny them.

After Medco distributed a supplemental proxy statement on January 31, 2000 and the court postponed the February 10, 2000 vote on the merger agreement for 15 days to allow shareholders sufficient time to consider the supplemental disclosures, the court rejected SWIB's claims in a February 24, 2000 Memorandum Opinion and denied preliminary injunctive relief because SWIB had not shown a reasonable likelihood of success following trial on the merits. The court made a number of preliminary findings, including that the Medco board of directors properly delegated to one of its directors the responsibility to negotiate the merger; that the payment of the negotiating fee was a proper exercise of business judgment and did not constitute

waste; that the other merger provisions were also valid; that the Medco directors were adequately informed of all material information reasonably available to them prior to approving the merger agreement; that the Medco directors acted independently and in good faith to benefit the economic interests of the Medco shareholders; that the alleged omissions in the proxy statements were not material; and that the Medco board of directors fully met its duty of complete disclosure with respect to the transaction.

SWIB has filed an Application for a Scheduling Order stating its intention to dismiss the case, before a class has been certified, without prejudice. In the meantime, the action is still pending. While SWIB has indicated that it does not intend to prosecute the merits of the case further, another shareholder could intervene and continue the action. Even though SWIB lost its motion for preliminary injunction, and is going to dismiss the case, SWIB has claimed that its attorneys are entitled to an award of attorney's fees and costs. SWIB petitioned the court for approximately $7.26 million in attorney's fees and approximately $270 in costs.

A hearing on SWIB's petition to dismiss and for attorney's fees and costs was held on June 26, 2000 in the Court of Chancery for the State of Delaware. On April 10, 2002, the court granted the motion to dismiss with prejudice and awarded SWIB $234 in fees and $94 in costs, for a total award of $328. SWIB has appealed the court's decision to the Delaware Supreme Court, where the case is still pending.

The Company believes that SWIB's case is meritless, and the Company is vigorously contesting it. The Company believes SWIB's actions did not confer a

benefit on the Medco shareholders. The Company also believes it is unlikely that another shareholder will intervene to continue the action, but if that results then the Company will vigorously contest it.

Thimerosal/Vaccine Related Litigation

King and its wholly-owned subsidiary, Parkedale Pharmaceuticals, Inc. ("Parkedale"), have been named as defendants in California and Mississippi, along with Abbott Laboratories, Wyeth, Aventis Pharmaceuticals, and other pharmaceutical companies, which have manufactured or sold vaccine products containing the mercury-based preservative, thimerosal.

In these cases, the plaintiffs attempt to link the receipt of the mercury-based vaccinations to neurological defects. The plaintiffs in these cases claim that the vaccines in question would have had their beneficial effects with or without thimerosal, and that thimerosal was a tool for undercutting other products on the market, thereby increasing defendants' sales and profits. The plaintiffs also claim unfair business practices, fraudulent misrepresentations, negligent misrepresentations, and breach of implied warranty, which are all arguments premised on the idea that the defendants promoted vaccines without any reference to the toxic hazards and potential public health ramifications resulting from the mercury-containing preservative. The plaintiffs also allege that the defendants knew of the dangerous propensities of thimerosal in their products.

The only vaccine that King/Parkedale has manufactured, distributed, marketed and/or sold was Fluogen(R) vaccine, which did contain the mercury-based preservative, thimerosal. Fluogen(R) was only distributed by King for two flu seasons. King's product liability insurance carrier, has been given proper notice of all of these matters, and defense counsel are vigorously defending the Company's interests. The Company is moving to be dismissed from the litigation due to lack of product identity in the plaintiffs' complaints. In 2001, King and Parkedale were dismissed on this basis in a similar case.

Other Legal Proceedings

The Parkedale Facility was one of six facilities owned by Pfizer subject to a Consent Decree of Permanent Injunction issued August 1993 in United States of America v. Warner-Lambert Company and Melvin R. Goodes and Lodewijk J.R. DeVink (U.S. Dist. Ct., Dist. of N.J.) (the "Consent Decree"). The Parkedale Facility is currently manufacturing pharmaceutical products subject to the Consent Decree which

prohibits the manufacture and delivery of specified drug products unless, among other things, the products conform to current good manufacturing practices and are produced in accordance with an approved abbreviated new drug application or new drug application. The Company intends, when appropriate, to petition for relief from the Consent Decree.

The Company is involved in various routine legal proceedings incident to the ordinary course of its business.

Summary

Management believes that the outcome of all pending legal proceedings in the aggregate will not have a material adverse affect on the Company's

consolidated financial position, results of operations, or cash flow.

7. SEGMENT REPORTING

The Company's business is classified into three reportable segments: Branded Pharmaceuticals, Contract Manufacturing, and Royalties. Branded Pharmaceuticals include a variety of branded prescription products over four therapeutic areas, including cardiovascular, anti-infective, critical care and women's health/endocrinology. These branded prescription products have been aggregated because of the similarity in regulatory environment, manufacturing process, method of distribution, and type of customer. Contract Manufacturing represents contract manufacturing services provided for pharmaceutical and biotechnology companies. Royalties represent products for which the Company has transferred the manufacturing and marketing rights to corporate partners in exchange for licensing fees and royalty payments on product sales. The classification "all other" primarily includes generic pharmaceutical products and development services.

The Company primarily evaluates its segments based on gross profit. Reportable segments were separately identified based on revenues, gross profit and total assets. Revenues among the segments are presented in the individual segments and removed through eliminations in the information below. Substantially all of the eliminations relate to sales of contract manufacturing to the branded pharmaceutical segment.

The following represents selected information for the Company's operating segments for the periods indicated:

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
Total revenues:		
Branded pharmaceuticals	$237,050	$161,481
Royalties	11,509	11,417
Contract manufacturing	37,314	15,028
All other	--	524
Eliminations	(27,808)	(7,133)
Consolidated total revenues	$258,065	$181,317
Gross profit:		
Branded pharmaceuticals	$199,261	$134,368
Royalties	9,581	8,916
Contract manufacturing	1,115	579
All other	--	38
Consolidated gross profit	$209,957	$143,901

	AS OF MARCH 31, 2002	AS OF DECEMBER 31, 2001
Total assets:		
Branded pharmaceuticals	$2,503,881	$2,397,062
Royalties	14,045	11,326
Contract manufacturing	113,648	103,268
All other	69	98
Eliminations	(11,983)	(5,143)
Consolidated total assets	$2,619,660	$2,506,611

The Company evaluates impairment of long-term assets at the lowest level of measurable cash flow in accordance with SFAS 144, including operating cash flows generated by sales to the ultimate third party.

The following represents revenues by therapeutic area:

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
Total revenues:		
Cardiovascular (including royalties)	$118,232	$ 70,460
Anti-infective	37,703	42,583
Critical care	24,660	17,310
Women's health/endocrinology	61,080	35,309
Other	16,390	15,655
Consolidated total revenues	$258,065	$181,317

8. SUBSEQUENT EVENTS

On May 13, 2002, the Company's board of directors authorized a plan to repurchase up to 7.5 million shares of the Company's common stock. Under the plan, the Company may repurchase shares of its common stock in the open-market from time to time, depending on market conditions, share price and other factors.

In April 2002, the Company established a $400.0 million five year senior secured revolving credit facility. This facility requires the Company to maintain a certain minimum net worth and EBITDA to interest expense ratio and maintain a funded debt to EBITDA ratio below an established maximum. The facility has been collateralized in general by all real estate with a value of $5.0 million or more and all personal property of the Company and its significant subsidiaries.

On April 29, 2002, the Company entered into an agreement with Ortho-McNeil Pharmaceutical, Inc., a Johnson & Johnson subsidiary, to acquire the exclusive rights to Ortho-Prefest(R) tablets in the United States, its territories and

possessions and the Commonwealth of Puerto Rico, including the related drug application, investigational new drug application, copyrights, and patents or licenses to the patents. The Company will pay $108.0 million for the product rights upon closing, plus $7.0 million upon receipt of the U.S. Food and Drug Administration's permission to rename the product "Prefest(TM)". The transaction is expected to close during the second quarter of 2002, subject to review of the related filing under the Hart-Scott-Rodino Act.

The Company has an exclusive worldwide license from Novavax, Inc. to promote, market, distribute and sell Estrasorb(TM), except in the United States and Puerto Rico where the parties will co-market the product, following approval by the FDA of Novavax's New Drug Application. Estrasorb(TM) is a topical estrogen replacement therapy which employs Novavax's proprietary micellar nanoparticle technology designed to

deliver 17-beta-estradiol, a naturally occurring hormone, through the skin when applied topically in the form of a lotion. Once approved, the Company will pay Novavax a royalty based on a percentage of net sales of Estrasorb(TM) outside of the United States and Puerto Rico. Novavax will pay King a co-promotion fee equal to 50% of net sales less cost of goods of Estrasorb(TM) within the United States and Puerto Rico. Marketing expenses for Estrasorb(TM) in the United States and Puerto Rico, following approval, will be shared equally by the parties. On April 24, 2002 Novavax announced that the FDA had completed its review of the New Drug Application for Estrasorb(TM) previously filed by Novavax on June 29, 2001. During the review process, no issues regarding the efficacy or safety of Estrasorb(TM) were communicated by the review division of the FDA to Novavax. However, the FDA did request from Novavax additional information with respect to the Chemistry, Manufacturing and Control section, which we refer to as the "CMC" section, of the Estrasorb(TM) New Drug Application. Based on its discussions with the FDA, Novavax chose to temporarily withdraw the New Drug Application and plans to refile it once Novavax has had an opportunity to adequately address the issues identified by the FDA with respect to the CMC section. The Company currently has investments totaling approximately $38.0 million in Novavax convertible senior notes.

9. GUARANTOR FINANCIAL STATEMENTS

The Company's wholly-owned subsidiaries, Monarch Pharmaceuticals, Inc.; Parkedale Pharmaceuticals, Inc.; Jones Pharma Incorporated; King Pharmaceuticals Research and Development, Inc.; and King Pharmaceuticals of Nevada, Inc. (the "Guarantor Subsidiaries"), have guaranteed the Company's performance under the $345,000, 2 3/4% Convertible Debentures due 2021 on a joint and several basis. There are no restrictions under the Company's financing arrangements on the ability of the Guarantor Subsidiaries to distribute funds to the Company in the form of cash dividends, loans or advances. The following combined financial data provides information regarding the financial position, results of operations and cash flows of the Guarantor Subsidiaries (condensed consolidating financial data). Separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented because management has determined that such information would not be material to the holders of the debentures.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(UNAUDITED)

GUARANTOR SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEETS

	MARCH 31, 2002				DECEMB
	KING	GUARANTOR SUBSIDIARIES	ELIMINATING ENTRIES	KING CONSOLIDATED	KING
ASSETS					
Current assets:					
Cash and cash equivalents	$ 705,010	$ (8,438)	$ --	$ 696,572	$ 882,391
Marketable securities	307,634	--	--	307,634	49,880
Accounts receivable, net	20,227	173,727	(11,943)	182,011	12,735
Inventories	13,055	117,472	--	130,527	18,683
Deferred income taxes	28,928	2,628	--	31,556	28,928
Prepaid expenses and other current assets	2,264	7,436	--	9,700	1,898
Total current assets	1,077,118	292,825	(11,943)	1,358,000	994,515
Property, plant, and equipment, net	40,464	127,205	--	167,669	38,964
Intangible assets, net	675,628	351,076	--	1,026,704	682,875
Investment in subsidiaries	1,227,750	--	(1,227,750)	--	1,158,458
Other assets	49,050	18,237	--	67,287	49,577
Total assets	$3,070,010	$ 789,343	$(1,239,693)	$2,619,660	$2,924,389
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$ 8,568	$ 24,545	$ (11,943)	$ 21,170	$ 4,347
Accrued expenses	5,613	116,405	--	122,018	6,700
Income taxes payable	(4,048)	52,841	--	48,793	(4,719
Current portion of long-term debt	1,343	5	--	1,348	1,344
Total current liabilities	11,476	193,796	(11,943)	193,329	7,672
Long-term debt	346,330	--	--	346,330	346,397
Deferred income taxes	34,539	2,482	--	37,021	34,539
Other liabilities	61,194	--	--	61,194	63,466
Intercompany (receivable) payable	634,685	(634,685)	--	--	564,031
Total liabilities	1,088,224	(438,407)	(11,943)	637,874	1,016,105
Shareholders' equity	1,981,786	1,227,750	(1,227,750)	1,981,786	1,908,284
Total liabilities					

and shareholders' equity.....	$3,070,010	$ 789,343	$(1,239,693)	$2,619,660	$2,924,389

	DECEMBER 31, 2001	
	ELIMINATING ENTRIES	KING CONSOLIDATED
ASSETS		
Current assets:		
Cash and cash equivalents.....	$ --	$ 874,602
Marketable securities.....	--	49,880
Accounts receivable, net.....	(5,143)	161,864
Inventories.....	--	111,578
Deferred income taxes.....	--	31,556
Prepaid expenses and other current assets.....	--	8,079
Total current assets.....	(5,143)	1,237,559
Property, plant, and equipment, net.....	--	164,116
Intangible assets, net.....	--	1,037,795
Investment in subsidiaries.....	(1,158,458)	--
Other assets.....	--	67,141
Total assets.....	$(1,163,601)	$2,506,611
LIABILITIES AND SHAREHOLDERS		
Current liabilities:		
Accounts payable.....	$ (5,143)	$ 22,870
Accrued expenses.....	--	119,498
Income taxes payable.....	--	7,718
Current portion of long-term debt.....	--	1,357
Total current liabilities.....	(5,143)	151,443
Long-term debt.....	--	346,397
Deferred income taxes.....	--	37,021
Other liabilities.....	--	63,466
Intercompany (receivable) payable.....	--	--
Total liabilities.....	(5,143)	598,327
Shareholders' equity.....	(1,158,458)	1,908,284
Total liabilities and shareholders' equity.....	$(1,163,601)	$2,506,611

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KING PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(UNAUDITED)

GUARANTOR SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF INCOME

	THREE MONTHS ENDED MARCH 31, 2002			
	KING	GUARANTOR SUBSIDIARIES	ELIMINATING ENTRIES	KING CONSOLIDATED
Revenues:				
Net sales	$ 21,300	$253,064	$(27,808)	$246,556
Royalty revenue	--	11,509	--	11,509
Total revenues	21,300	264,573	(27,808)	258,065
Operating costs and expenses:				
Costs of revenues	24,464	51,452	(27,808)	48,108
Selling, general and administrative	1,041	77,424	--	78,465
Depreciation and amortization	7,931	5,657	--	13,588
Research and development	--	5,643	--	5,643
Total operating costs and expenses	33,436	140,176	(27,808)	145,804
Operating income	(12,136)	124,397	--	112,261
Other income (expense):				
Interest income	4,235	423	--	4,658
Interest expense	(2,750)	--	--	(2,750)
Other, net	(232)	(551)	--	(783)
Equity in earnings of subsidiaries	69,292	--	(69,292)	--
Intercompany interest income (expense)	14,108	(14,108)	--	--
Total other income (expense)	84,653	(14,236)	(69,292)	1,125
Income before income taxes and cumulative effect of change in accounting principle	72,517	110,161	(69,292)	113,386
Income tax expense	(1,197)	(40,869)	--	(42,066)
Income before cumulative effect of change in accounting principle	71,320	69,292	(69,292)	71,320
Cumulative effect of change in accounting principle	--	--	--	--
Net income	$ 71,320	$ 69,292	$(69,292)	$ 71,320

	THREE MONTHS ENDED MARCH 31, 2001

	KING	GUARANTOR SUBSIDIARIES	ELIMINATING ENTRIES	KING CONSOLIDATED
Revenues:				
Net sales	$ 5,307	$168,767	$ (4,174)	$169,900
Royalty revenue	--	11,417	--	11,417
Total revenues	5,307	180,184	(4,174)	181,317
Operating costs and expenses:				
Costs of revenues	4,650	36,940	(4,174)	37,416
Selling, general and administrative	1,513	53,746	--	55,259
Depreciation and amortization	5,309	6,066	--	11,375
Research and development	198	3,817	--	4,015
Total operating costs and expenses	11,670	100,569	(4,174)	108,065
Operating income	(6,363)	79,615	--	73,252
Other income (expense):				
Interest income	2,021	488	--	2,509
Interest expense	(3,029)	162	--	(2,867)
Other, net	(1,445)	(126)	--	(1,571)
Equity in earnings of subsidiaries	76,278	--	(76,278)	--
Intercompany interest income (expense)	2,912	(2,912)	--	--
Total other income (expense)	76,737	(2,388)	(76,278)	(1,929)
Income before income taxes and cumulative effect of change in accounting principle	70,374	77,227	(76,278)	71,323
Income tax expense	(25,655)	(949)	--	(26,604)
Income before cumulative effect of change in accounting principle	44,719	76,278	(76,278)	44,719
Cumulative effect of change in accounting principle	(545)	--	--	(545)
Net income	$ 44,174	$ 76,278	$(76,278)	$ 44,174

KING PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(UNAUDITED)

GUARANTOR SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED MARCH 31, 2002			
	KING	GUARANTOR SUBSIDIARIES	ELIMINATING ENTRIES	KING CONSOLIDATED

Cash flows from operating activities...	$ 9,883	$ 74,298	$ --	$ 84,181
Cash flows from investing activities:				
Loans receivable.....	--	--	--	--
Purchases of property, plant and equipment.....	(2,185)	(8,594)	--	(10,779)
Proceeds from sale of product rights.....	--	--	--	--
Proceeds from sale of property and equipment.....	--	4,309	--	4,309
Purchases of marketable securities...	(257,754)	--	--	(257,754)
Net cash used in investing activities.....	(259,939)	(4,285)	--	(264,224)
Cash flows from financing activities:				
Proceeds from issuance of common shares and exercise of stock options, net.....	2,182	--	--	2,182
Payments on other long-term debt.....	(68)	(8)	--	(76)
Other.....	(93)	--	--	(93)
Intercompany.....	70,654	(70,654)	--	--
Net cash provided by (used in) financing activities.....	72,675	(70,662)	--	2,013
Increase (decrease) in cash and cash equivalents.....	(177,381)	(649)	--	(178,030)
Cash and cash equivalents, beginning of period.....	882,391	(7,789)	--	874,602
Cash and cash equivalents, end of period.....	$ 705,010	$ (8,438)	$ --	$ 696,572

	THREE MONTHS ENDED MARCH 31, 2001			
	KING	GUARANTOR SUBSIDIARIES	ELIMINATING ENTRIES	KING CONSOLIDATED
Cash flows from operating activities...	$ 5,211	$ 90,556	$ --	$ 95,767
Cash flows from investing activities:				
Loans receivable.....	--	(5,000)	--	(5,000)
Purchases of property, plant and equipment.....	(4,246)	(2,795)	--	(7,041)
Proceeds from sale of product rights.....	3,332	--	--	3,332
Proceeds from sale of property and equipment.....	--	43	--	43
Purchases of marketable securities...	--	--	--	--
Net cash used in investing activities.....	(914)	(7,752)	--	(8,666)
Cash flows from financing activities:				
Proceeds from issuance of common shares and exercise of stock				

options, net	5,741	--	--	5,741
Payments on other long-term debt	(108)	(7)	--	(115)
Other	(34)	--	--	(34)
Intercompany	79,134	(79,134)	--	--
Net cash provided by (used in) financing activities	84,733	(79,141)	--	5,592
Increase (decrease) in cash and cash equivalents	89,030	3,663	--	92,693
Cash and cash equivalents, beginning of period	82,316	(5,921)	--	76,395
Cash and cash equivalents, end of period	$171,346	$ (2,258)	$ --	$169,088

PART I -- FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion contains certain forward-looking statements that reflect management's current views of future events and operations. This discussion should be read in conjunction with the following: (a) "Risk Factors" set out below and other sections of our Annual Report on Form 10-K for the year ended December 31, 2001, which are supplemented by the discussion which follows; (b) our audited consolidated financial statements which are included in our Annual Report on Form 10-K for the year ended December 31, 2001; and (c) our unaudited consolidated financial statements and related notes thereto included in this report.

OVERVIEW

General

The following summarizes net revenues by operating segment (in thousands).

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2002	2001
Branded pharmaceuticals	$237,050	$161,228
Royalties	11,509	11,417
Contract manufacturing	9,506	8,148
Other	--	524
Total	$258,065	$181,317

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2002 AND 2001

Revenues

Net revenues increased $76.8 million, or 42.4%, to $258.1 million in 2002 from $181.3 million in 2001, due primarily to the growth of our branded pharmaceutical products and the acquisition of additional branded pharmaceutical products.

Net sales from branded pharmaceutical products increased $75.9 million, or 47.1%, to $237.1 million in 2002 from $161.2 million in 2001. This increase was due primarily to growth in net sales of Altace(R) and Levoxyl(R) and the acquisition of three branded pharmaceutical products, along with a fully paid license to a fourth product from Bristol-Myers Squibb Company in August, 2001. While we expect continued growth in net sales of our branded pharmaceuticals in the future, we refer you to the "Risk Factors" that appear below.

Revenues from royalties is derived from payments we receive based on sales of Adenoscan(R) and Adenocard(R). Revenue from royalties increased $0.1 million, or 0.9%, to $11.5 million in 2002 from $11.4 million in 2001.

Revenues from contract manufacturing increased $1.4 million, or 17.3%, to $9.5 million in 2002 from $8.1 million in 2001.

Gross Profit

Total gross profit (namely, revenues less cost of revenues, including royalty expense) increased $66.1 million, or 45.9%, to $210.0 million in 2002 from $143.9 million in 2001. The increase was primarily due to increased sales of higher margin branded pharmaceutical products.

Gross profit from branded pharmaceutical products increased $64.9 million, or 48.3%, to $199.3 million in 2002 from $134.4 million in 2001. This increase was primarily due to increases in gross profit from the Altace(R)

and Levoxyl(R) product lines as well as additional gross profit arising from the acquisition of three branded pharmaceutical products and a license to a fourth from Bristol-Myers Squibb in August 2001.

Gross profit from royalties increased $0.7 million, or 7.9%, to $9.6 million in 2002 from $8.9 million in 2001.

Gross profit associated with contract manufacturing increased $0.5 million, or 83.3%, to $1.1 million in 2002 from $0.6 million in 2001.

Operating Costs and Expenses

Total operating costs and expenses increased $37.7 million, or 34.9%, to $145.8 million in 2002 from $108.1 million in 2001. The increase was primarily due to costs associated with increased unit sales of our branded pharmaceutical products, including Altace(R) and Levoxyl(R), and increased fees associated with the promotion of Altace(R) under the Co-Promotion Agreement with Wyeth.

Cost of revenues increased $10.7 million, or 28.6%, to $48.1 million in 2002 from $37.4 million in 2001. The increase was primarily due to costs associated with increased unit sales of our branded pharmaceutical products, including Altace(R) and Levoxyl(R), and the acquisition of three branded pharmaceutical products and a license to a fourth from Bristol-Myers Squibb in August 2001. As a percentage of revenues, cost of revenues decreased to 18.6% in 2002 from 20.6% in 2001 due to an increase in sales of higher margin products.

Selling, general and administrative expenses increased $23.2 million, or 42.0%, to $78.5 million in 2002 from $55.3 million in 2001. This increase was primarily attributable to fees associated with the promotion of Altace(R) under the Co-Promotion Agreement with Wyeth and the growth of our dedicated national field sales force from approximately 520 representatives in 2001 to 715 representatives in 2002. As a percentage of revenues, selling, general, and administrative expenses remained relatively constant at 30.4% in 2002 compared to 30.5% in 2001.

Depreciation and amortization expense increased $2.2 million, or 19.3%, to $13.6 million in 2002 from $11.4 million in 2001. This increase was primarily attributable to the amortization of the intangible assets related to the acquisition of three branded pharmaceutical products and a license to a fourth from Bristol-Myers Squibb in August 2001. Amortization expense was reduced by $0.4 million in 2002 due to the implementation of SFAS 142 (see Note 5 to financial statements).

Research and development expense increased $1.6 million, or 40.0%, to $5.6 million in 2002 from $4.0 million in 2001 due to our increased commitment to research and development.

Operating Income

Operating income increased $39.0 million, or 53.2%, to $112.3 million in 2002 from $73.3 million in 2001. This increase was primarily due to increased revenues from Altace(R) and Levoxyl(R), plus the acquisition of three branded pharmaceutical products and a license to a fourth from Bristol-Myers Squibb in August 2001. As a percentage of net revenues, operating income increased to 43.5% in 2002 from 40.4% in 2001 primarily due to an increase in sales of higher margin branded pharmaceutical products.

Other Income (Expense)

Interest income increased $2.2 million, or 88.0%, to $4.7 million in 2002 from $2.5 million in 2001 due to higher balances of invested cash, cash equivalents, and marketable securities during 2002 as compared to 2001.

Interest expense decreased $0.1 million, or 3.6%, to $2.8 million in 2002 from $2.9 million in 2001.

Other expense decreased from $1.6 million in 2001 to $0.8 million in 2002.

Income Tax Expense

The effective tax rate of 37.1% in 2002 and 37.3% in 2001 was higher than the federal statutory rate of 35.0% due primarily to permanent differences related to state income taxes in both 2002 and 2001.

Cumulative Effect of Change in Accounting Principle

We recognized the cumulative effect of a change in accounting principle of $0.5 million, net of income taxes of $0.3 million, during the three months ended March 31, 2001 due to the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138, which establishes accounting and reporting standards for derivative instruments and hedging activities.

Net Income

Due to the factors set forth above, net income increased $27.1 million, or 61.3%, to $71.3 million in 2002 from $44.2 million in 2001.

LIQUIDITY AND CAPITAL RESOURCES

General

We believe that existing balances of cash, cash equivalents and marketable securities, cash generated from operations, and an existing revolving credit facility are sufficient to finance our current operations and working capital requirements. However, in the event we make significant future acquisitions or change our capital structure, we may be required to raise funds through additional borrowings or the issuance of additional debt or equity securities.

At present, we are actively pursuing acquisitions that may require the use of substantial capital resources. There are no present agreements or commitments with respect to any such acquisition.

THREE MONTHS ENDED MARCH 31, 2002

We generated net cash from operations of $84.2 million for the three months ended March 31, 2002. Our net cash provided from operations was primarily the result of $71.3 million in net income, adjusted for non-cash depreciation and amortization of $13.6 million, a change in income taxes payable/receivable of $41.1 million, and an increase in accrued expenses of $2.5 million. Primary uses of cash provided from operations included an increase in accounts receivable of $20.6 million, an increase in inventory of $18.9 million, a decrease in accounts payable of $1.7 million, and amortization of deferred revenue of $2.3 million offset the items previously described.

Cash flows used in investing activities was $264.2 million due to $10.8 million of capital expenditures and $257.8 million for purchases of marketable securities offset by $4.3 million received as proceeds from the sale of product rights.

Financing activities provided $2.0 million primarily due to the exercise of employee stock options.

Certain Indebtedness and Other Matters

As of March 31, 2002, we had $347.7 million of long-term debt (including current portion). None of the debt agreements relating to the outstanding indebtedness contain financial covenants.

On September 20, 2001, we registered a $1.3 billion universal shelf registration statement on Form S-3 with the Securities and Exchange Commission. This universal shelf registration statement allows us to sell any combination of debt and/or equity securities in one or more offerings up to a total of $1.3 billion. During November 2001, we completed the sale of 17,992,000 newly issued shares of common stock for $38.00 per share ($36.67 per share net of commissions and expenses) resulting in net proceeds of $659.8 million. Additionally, during November 2001, we issued $345.0 million of 2 3/4% Convertible Debentures due November 15, 2021 in a private placement. At March 31, 2002, $616.0 million remains available to us under the $1.3 billion universal shelf registration.

In April 2002, we established a $400.0 million five year senior secured revolving credit facility. This facility requires us to maintain a certain minimum net worth, EBITDA to interest expense ratio above an established minimum, and funded debt to EBITDA ratio below an established maximum. As of May 13,

2001, we were in compliance with these covenants and had available up to $400.0 million under the senior secured revolving credit facility.

Capital Expenditures

Capital expenditures, including capital lease obligations, were $10.8 million and $7.0 million for the three months ended March 31, 2002 and 2001, respectively. The principal capital expenditures included property and equipment purchases and building improvements for facility upgrades and increased capacity.

SUBSEQUENT EVENTS

Stock Repurchase Plan

On May 13, 2002, our Board of Directors authorized a plan to repurchase up to 7.5 million shares of our common stock. Under the plan, we may repurchase shares of our common stock in the open-market from time to time, depending on market conditions, share price and other factors.

Ortho-Prefest(R) Acquisition

On April 29, 2002, we entered into an agreement with Ortho-McNeil Pharmaceutical, Inc., a Johnson & Johnson subsidiary, to acquire Ortho-Prefest(R) tablets in the United States, its territories and possessions and the Commonwealth of Puerto Rico, including the related drug application, investigational new drug application, copyrights, and patents or licenses to the patents. We will pay $108.0 million for the product rights upon closing, plus $7.0 million upon receipt of the U.S. Food and Drug Administration's (which we refer to as the "FDA") permission to rename the product "Prefest(TM)". The transaction is expected to close during the second quarter of 2002, subject to review of the related filing under the Hart-Scott-Rodino Act.

Estrasorb(TM) License

We have an exclusive worldwide license from Novavax, Inc. to promote, market, distribute and sell Estrasorb(TM), except in the United States and Puerto Rico where the parties will co-market the product, following approval by the FDA of Novavax's New Drug Application. Estrasorb(TM) is a topical estrogen replacement therapy which employs Novavax's proprietary micellar nanoparticle technology designed to deliver 17-beta-estradiol, a naturally occurring hormone, through the skin when applied topically in the form of a lotion. Once approved, we will pay Novavax a royalty based on a percentage of net sales of Estrasorb(TM) outside of the United States and Puerto Rico. Novavax will pay King a co-promotion fee equal to 50% of net sales less cost of goods of Estrasorb(TM) within the United States and Puerto Rico. Marketing expenses for Estrasorb(TM) in the United States and Puerto Rico, following approval, will be shared equally by the parties. On April 24, 2002 Novavax announced that the FDA had completed its review of the New Drug Application for Estrasorb(TM) previously filed by Novavax on June 29, 2001. During the review process, no issues regarding the efficacy or safety of Estrasorb(TM) were communicated by the review division of the FDA to Novavax. However, the FDA did request from Novavax additional information with respect to the Chemistry, Manufacturing and Control section, which we refer to as the "CMC" section, of the Estrasorb(TM) NDA. Based on its discussions with the FDA, Novavax chose to temporarily withdraw the New Drug Application and plans to refile it once Novavax has had an opportunity to adequately address the issues identified by the FDA with respect to the CMC section.

IMPACT OF INFLATION

We have experienced only moderate raw material and labor price increases in recent years. While we have passed some price increases along to our customers, we have primarily benefited from rapid sales growth negating most inflationary pressures.

RECENT ACCOUNTING PRONOUNCEMENTS

In the first quarter of 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, which establishes accounting and reporting standards for derivative instruments and hedging activities. The cumulative effect of the change in accounting principle was $0.5 million, net of income taxes of $0.3 million. In addition, the change in the value of the derivatives in the quarter ended March 31, 2001 of $1.5 million was included in other expense.

In the first quarter of 2002, we adopted SFAS No. 141 "Business Combinations", and SFAS No. 142 "Goodwill and Other Intangible Assets". SFAS No. 141 requires all business combinations to be accounted for under the purchase method of accounting. SFAS No. 141 was effective for all business combinations initiated after June 30, 2001. SFAS No. 142 modifies the accounting and reporting for acquired intangible assets at the time of acquisition and in subsequent periods. Intangible assets which have finite lives must be amortized over their estimated useful life. Intangible assets with indefinite lives will not be amortized, but evaluated annually for impairment.

The results for the quarter ended March 31, 2002, include the effect of adopting SFAS Nos. 141 and 142, which resulted in a $0.4 million reduction in expenses ($0.3 million net of tax) and no increase in basic and diluted earnings per share.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations" and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. We adopted these standards effective January 1, 2002. The implementation of these standards did not have any effect on our financial statements.

In May 2002, the Financial Accounting Standards Board issued SFAS No. 145, "Revision of FAS Nos. 4, 44 and 64, Amendment of FAS 13 and Technical Corrections as of April 2002." SFAS No. 145 is effective for fiscal periods beginning after May 15, 2002. The primary effect of our adopting FAS 145 will be that gains and losses incurred upon the extinguishment of debt may no longer qualify for extraordinary items treatment in the income statement.

RISK FACTORS

Before you purchase our securities, you should carefully consider the risks described below and the other information contained in this report, including our financial statements and related notes. The risks described below are not the only ones facing our company. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the adverse events described in this "Risk Factors" section actually occurs, our business, results of operations and financial condition could be materially adversely affected, the trading price, if any, of our securities could decline and you might lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS

IF SALES OF OUR MAJOR PRODUCTS OR ROYALTY PAYMENTS TO US DECREASE, OUR RESULTS OF OPERATIONS COULD BE ADVERSELY AFFECTED.

Altace(R) accounted for approximately 38.6% and Levoxyl(R) accounted for approximately 15.4% of our net sales for the three months ended March 31, 2002, and Altace(R), Levoxyl(R), Thrombin-JMI(R), Lorabid(R), Bicillin(R) and royalty revenues collectively accounted for approximately 77.8% of our net sales during the same period. We believe that sales of these products will continue to constitute a significant portion of our total revenues for the foreseeable future. Accordingly, any factor adversely affecting sales of any of these products or products for which we receive royalty payments could have a material adverse effect on our business, financial condition, results of operations and cash flows.

WE MAY NOT ACHIEVE OUR INTENDED BENEFITS FROM THE CO-PROMOTION AGREEMENT WITH WYETH FOR THE PROMOTION OF ALTACE(R).

We entered into the Co-Promotion Agreement with Wyeth for Altace(R) partially because we believed a larger pharmaceutical company with more sales representatives and, in our opinion, with substantial experience in the promotion of pharmaceutical products to physicians would significantly increase the sales revenue potential of Altace(R). By efficiently co-marketing the new indications for Altace(R) which were approved by the FDA on October 4, 2000, we intend to increase the demand for the product. In the agreement, both of us have incentives to maximize the sales and profits of Altace(R) and to optimize the marketing of the product by coordinating our promotional activities.

Under the Co-Promotion Agreement, Wyeth and we agreed to establish an annual budget of marketing expenses to cover, among other things, direct-to-consumer advertising, such as television advertisements and advertisements in popular magazines and professional journals. One of the goals of the direct-to-consumer advertising campaign is to encourage the targeted audience to ask their own physicians about Altace(R) and whether it might be of benefit for them. The direct-to-consumer campaign may not be effective in achieving this goal. Physicians may not prescribe Altace(R) for their patients to the extent we might otherwise hope if patients for whom Altace(R) is indicated do not ask their physicians about Altace(R).

It is possible that we or Wyeth or both of us will not be successful in effectively promoting Altace(R) or in optimizing its sales. The content of agreed-upon promotional messages for Altace(R) may not sufficiently convey the merits of Altace(R) and may not be successful in convincing physicians to prescribe Altace(R) instead of other ACE inhibitors or competing therapies. The targets for sales force staffing, the number and frequency of details to physicians and the physicians who are called upon may be inadequate to realize our expectations for revenues from Altace(R). Neither we nor Wyeth may be able to overcome the perception by physicians of a class effect, which we discuss below. Further, developments in technologies or the introduction of other products or new therapies may make it more attractive for Wyeth to concentrate on the promotion of a product or products other than Altace(R) or to lessen their emphasis on the marketing of Altace(R). Our strategic decisions in dealing with managed health care organizations may not prove to be correct and we could consequently lose sales in this market to competing ACE inhibitor products or alternative therapies. If any of these situations occurred, they could have a material adverse effect on our business, financial condition, results of operations and cash flows.

IF OUR BRISTOL FACILITY DOES NOT RECEIVE FINAL APPROVAL FROM THE FDA TO MANUFACTURE AND DISTRIBUTE ALTACE(R) OR IF THERE IS AN INTERRUPTION IN THE SUPPLY OF RAW MATERIAL FOR ALTACE(R), THE DISTRIBUTION, MARKETING AND SUBSEQUENT SALES OF THE PRODUCT COULD BE ADVERSELY AFFECTED.

We have qualified our Bristol facility as a manufacturing and packaging site for Altace(R) in accordance with FDA guidelines and are currently manufacturing and distributing Altace(R) at that site. Aventis Pharma Deutscheland GmbH (Germany) will continue to be our single supplier of ramipril, the active ingredient in Altace(R). Because the manufacture of ramipril is a patented process, we cannot secure the raw material from another source. We have entered into a long-term supply agreement with Aventis (Germany) and we believe that it adequately protects our supply of raw material, but there can be no guarantee that there will not be interruptions or delays in the supply of the raw material. Aventis (USA) will remain an alternative or back-up supplier of Altace(R) for us. Any interruptions or delays in manufacturing or receiving the finished product or raw material used for the future production of Altace(R) or the failure of the FDA to issue formal written approval for the continued manufacturing and distribution of Altace(R) at our Bristol facility could have a material adverse effect on our business, financial condition, results of operations and cash flows.

SALES OF ALTACE(R) MAY BE AFFECTED BY THE PERCEPTION OF A CLASS EFFECT, AND ALTACE(R) AND OUR OTHER PRODUCTS MAY BE SUBJECT TO VARIOUS SOURCES OF COMPETITION FROM ALTERNATE THERAPIES.

Although the FDA has approved new indications for Altace(R), we may be unable to meet investors' expectations regarding sales of Altace(R) due to a perceived class effect or the inability to market Altace(R)'s new uses and indications effectively.

All prescription drugs currently marketed by pharmaceutical companies may be grouped into existing drug classes, but the criteria for inclusion vary from class to class. For some classes, specific biochemical properties may be the defining characteristic. For example, Altace(R) (ramipril) is a member of a class of products known as ACE inhibitors because ramipril is one of several chemicals that inhibits the production of enzymes that convert angiotensin, which could otherwise lead to hypertension.

When one drug from a class is demonstrated to have a particularly beneficial or previously undemonstrated effect (e.g., the benefit of Altace(R) as shown by the HOPE trial), marketers of other drugs in the same class (for example, other ACE inhibitors) will represent that their products offer the same benefit simply by virtue of membership in the same drug class. Consequently, other companies with ACE inhibitors that compete with Altace(R) will represent that their products are equivalent to Altace(R). By doing so, these companies will represent that their products offer the same efficacious results demonstrated by the HOPE trial. Regulatory agencies do not decide whether products within a class are quantitatively equivalent in terms of efficacy or safety. Because comparative data among products in the same drug class are rare, marketing forces often dictate a physician's decision to use one ACE inhibitor over another. We may not be able to overcome other companies' representations that their ACE inhibitors will offer the same benefits as Altace(R) as demonstrated by the HOPE trial. As a result, sales of Altace(R) may suffer from the perception of a class effect.

Currently, there is no generic form of Altace(R) available. That is, there is no product that has the same active ingredient as Altace(R). Although no

generic substitute for Altace(R) has been approved by the FDA, there are other ACE inhibitors whose patents have expired or will expire in the next few years and there are generic forms of other ACE inhibitors. Also, there are different therapeutic agents that may be used to treat certain conditions treated by Altace(R). For example, the group of products known as angiotensin II receptor blocker, which we refer to as an "ARB" in this report beta-blockers, calcium channel blockers and diuretics, may be prescribed to treat certain conditions that Altace(R) is used to treat. New ACE inhibitors or other anti-hypertensive therapies, increased sales of generic forms of other ACE inhibitors or of other therapeutic agents that compete with Altace(R) may adversely affect the sales of Altace(R).

OUR CO-PROMOTION AGREEMENT FOR ALTACE(R) WITH WYETH COULD BE TERMINATED BEFORE WE REALIZE ALL OF THE BENEFITS OF THE AGREEMENT OR IT COULD BE ASSIGNED TO ANOTHER COMPANY BY WYETH OR WYETH COULD MARKET A COMPETING PRODUCT.

Our exclusive Co-Promotion Agreement for Altace(R) with Wyeth could be terminated before we realize all of the benefits of the agreement. Wyeth and we each have the right to terminate the agreement if annualized net sales of Altace(R) have not reached $300.0 million by October 4, 2003. There are other reasons why either Wyeth or we could terminate the Co-Promotion Agreement. If the Co-Promotion Agreement is terminated for any reason, we may not realize increased sales which we believe may result from the expanded promotion of Altace(R). If we must unwind our marketing alliance efforts because of the reasons mentioned above, there may be a material adverse effect on the sales of Altace(R).

If another company were to acquire, directly or indirectly, over 50% of the combined voting power of Wyeth's voting securities or more than half of its total assets, then Wyeth could assign its rights and obligations under the Altace(R) Co-Promotion Agreement to a successor without our prior consent. However, a successor would be required to first assume in writing the obligations of Wyeth under the Co-Promotion Agreement before the rights of Wyeth were assigned to it. Another party might not market Altace(R) as effectively or efficiently as Wyeth did. Also, a company which acquires Wyeth might not place as much emphasis on the Co-Promotion Agreement, might expend fewer marketing resources, such as a fewer number of sales representatives, than Wyeth did, or might have less experience or expertise in marketing pharmaceutical products to physicians. In any of these cases, there may be a material adverse effect on the sales of Altace(R).

When feasible, Wyeth must give us six months' written notice of its intent to sell, market or distribute any product competitive with Altace(R). Under the Co-Promotion Agreement, a product competes with Altace(R) if it is an ACE inhibitor, an ARB, or an ACE inhibitor or ARB in combination with other cardiovascular agents in a single product. However, an ARB alone or in combination with other cardiovascular agents competes with

Altace(R) only if the level of promotional effort used by Wyeth for the ARB is greater than 50% of that applied to Altace(R). A product would not compete with Altace(R) if in the last 12 months it had net sales of less than $100.0 million or 15% of net sales of Altace(R), whichever was higher. Also, a product would not compete with Altace(R) under the Co-Promotion Agreement if the product were acquired by Wyeth through a merger with or acquisition by a third party and the product was no longer actively promoted by Wyeth or its successor through detailing the product to physicians.

Once we have been notified in writing of Wyeth's intent to market, sell or distribute a competing product, then Wyeth has 90 days to inform us as to

whether it intends to divest its interest in the competing product. If Wyeth elects to divest the competing product, it must try to identify a purchaser and to enter into a definitive agreement with the purchaser as soon as practicable. If Wyeth elects not to divest the competing product or fails to divest the product within one year of providing notice to us of its plan to divest the competing product, then both of us must attempt to establish acceptable terms under which we would co-promote the competing product for the remaining term of our Altace(R) Co-Promotion Agreement. Alternatively, Wyeth and we could agree upon another commercial relationship, such as royalties payable to us for the sale of the competing product, or we could agree to adjust the promotion fee we pay to Wyeth for the co-promotion of Altace(R). If Wyeth and we are unable to establish acceptable terms under any of these options, then we have the option at our sole discretion to reacquire all the marketing rights to Altace(R) and terminate the Co-Promotion Agreement upon 180 days' prior written notice to Wyeth. In the event we decided to reacquire all the marketing rights to Altace(R) we would be obligated to pay Wyeth an amount of cash equal to twice the net sales of Altace(R) in the United States for the 12 month period preceding the reacquisition. The foregoing could have a material effect on our business, financial condition, results of operations and cash flows.

OUR SALES OF LEVOXYL(R) COULD BE AFFECTED BY FUTURE ACTIONS OF THE FDA AND BY UNCERTAINTY IN THE LEVOTHYROXINE SODIUM PRODUCT MARKET.

On August 14, 1997, the FDA announced in the Federal Register (62 FR 43535) that orally administered levothyroxine sodium drug products are new drugs. The notice stated that manufacturers who wish to continue to market these products must submit applications as required by the FDC Act by August 14, 2000. On April 26, 2000, the FDA issued a second Federal Register notice extending the deadline for filing these applications until August 14, 2001.

On May 25, 2001, the FDA approved our previously filed New Drug Application for Levoxyl(R), our levothyroxine sodium drug product. Other manufacturers of levothyroxine sodium drug products have filed New Drug Applications for their levothyroxine sodium products. Jerome Stevens, Inc. has also received approval for its levothyroxine sodium product Unithroid. Jerome Stevens has licensed Unithroid to Watson Pharmaceuticals. The FDA has announced that after August 14, 2001, it will not accept New Drug Applications for levothyroxine sodium drug products. However, the FDA has stated it will continue to review applications which were submitted by August 14, 2001. Further, the FDA is requiring a phasing-out of the distribution of levothyroxine sodium products for which New Drug Applications were pending but not approved by August 14, 2001. Other manufacturers who wish to submit an application for an equivalent product after August 14, 2001 must submit an Abbreviated New Drug Application. Also, since the Jerome Stevens product has been approved, a manufacturer could submit an Abbreviated New Drug Application demonstrating in vivo bioequivalence (in other words, the two products produce identical effects on the body) to the Jerome Stevens product. If the FDA were to determine that another levothyroxine sodium product is bioequivalent to Levoxyl(R), generic substitution for Levoxyl(R) may become possible which could result in a decrease in sales of our product Levoxyl(R).

To further protect against the possibility of generic substitution, during 2001 we filed with the U.S. Patent and Trademark Office in excess of 20 applications for U.S. patents concerning our FDA-approved new formulation of Levoxyl(R). The pending patent applications generally cover, among other things, formulation methodologies and equipment, formulation technologies, biopharmaceutical characteristics, drug delivery systems, and methods-of-use. If such applications are granted, the resulting patents will potentially provide us with patent protection on our FDA-approved new formulation of Levoxyl(R) for 20 years from the respective filing dates of the applications. However, we cannot assure you that any or all of the patent applications will be

granted, or whether any or all of the resulting patents will provide Levoxyl(R) with protection from possible generic substitution.

On March 26, 2002, Jerome Stevens filed a Petition for Stay of Action (assigned Docket No. 02P1035) with the FDA seeking redress from the FDA for the public disclosure on the FDA's website of alleged trade secrets relating to the manufacturing process for Jerome Stevens' orally-administered levothyroxine sodium drug product Unithroid. While Jerome Stevens does not specifically request that the FDA stay any action with respect to our levothyroxine sodium drug product Levoxyl(R), Jerome Stevens does request, among other broad remedies, that the FDA "immediately and indefinitely stay . . . all grants of drug pre-market authority that used, relied on, or were based on Jerome confidential and trade secret manufacturing information . . ." We intend to file a Comment on Jerome Stevens' Petition with the FDA, stating that the New Drug Application for Levoxyl(R) was filed with the FDA before the disclosure of Jerome Stevens' alleged trade secrets, and that the approval of the Levoxyl(R) New Drug Application is unrelated to such disclosure. Based on these facts, we do not believe that Jerome Stevens' Petition applies to Levoxyl(R). However, if the FDA were to determine that there is a valid legal basis for suspension or withdrawal of FDA approval of the Levoxyl(R) New Drug Application it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

WE CANNOT ASSURE YOU THAT SALES OF LORABID(R) WILL INCREASE IN THE FUTURE. IF SALES DO NOT INCREASE, THERE MAY BE A MATERIAL ADVERSE EFFECT UPON OUR RESULTS OF OPERATIONS.

Prior to our acquisition of Lorabid(R), sales of that product were on the decline because we believe that the prior owner was not actively promoting the product. Increased sales of Lorabid(R) depend upon effective marketing to physicians which leads them to write prescriptions for our product. Since the antibiotic market is very competitive, we cannot assure you that sales of Lorabid(R) will increase in the future. Eli Lilly and Company manufactures Lorabid(R) for us under a supply agreement containing minimum purchase requirements. If Lorabid(R) sales continue to decrease, there may be a material adverse effect upon our results of operations and cash flows.

IF WE CANNOT IMPLEMENT OUR STRATEGY TO GROW OUR BUSINESS THROUGH INCREASED SALES AND ACQUISITIONS, OUR COMPETITIVE POSITION IN THE PHARMACEUTICAL INDUSTRY MAY SUFFER.

We have historically increased our sales and net income through strategic acquisitions and related internal growth initiatives intended to develop marketing opportunities with respect to acquired product lines. Our strategy is focused on increasing sales and enhancing our competitive standing through acquisitions that complement our business and enable us to promote and sell new products through existing marketing and distribution channels. Moreover, since we engage in limited proprietary research activity with respect to product development, we rely heavily on purchasing product lines from other companies.

Other companies, some of which have substantially greater financial, marketing and sales resources than we do, compete with us for the acquisition of products or companies. We may not be able to acquire rights to additional products or companies on acceptable terms, if at all, or be able to obtain future financing for acquisitions on acceptable terms, if at all. The inability to effect acquisitions of additional branded products could limit the overall growth of our business. Furthermore, even if we obtain rights to a pharmaceutical product or acquire a company, we may not be able to generate sales sufficient to create a profit or otherwise avoid a loss. For example, our

marketing strategy, distribution channels and levels of competition with respect to acquired products may be different than those of our current products, limiting our ability to compete favorably in those product categories.

IF WE CANNOT INTEGRATE THE BUSINESS OF COMPANIES OR PRODUCTS WE ACQUIRE, OUR BUSINESS MAY SUFFER.

We anticipate that the integration of newly acquired companies and products into our business will require significant management attention and expansion of our sales force. In order to manage our acquisitions effectively, we must maintain adequate operational, financial and management information systems and motivate and effectively manage an increasing number of employees. Our acquisitions, have significantly expanded our product offerings, operations and number of employees. Our future success will also depend in

part on our ability to retain or hire qualified employees to operate our expanding facilities efficiently in accordance with applicable regulatory standards. If we cannot integrate our acquisitions successfully, these changes and acquisitions could have a material adverse effect on our business, financial condition, results of operations and cash flows.

IF WE ARE NOT ABLE TO DEVELOP OR LICENSE NEW PRODUCTS, OUR BUSINESS MAY SUFFER.

We compete with other pharmaceutical companies, including large pharmaceutical companies with financial resources and capabilities substantially greater than ours, in the development and licensing of new products. We cannot assure you that we will be able to

- engage in product life cycle management to develop new indications and line extensions for existing and acquired products;

- successfully develop, license or commercialize new products on a timely basis or at all; or

- develop or license new products in a cost effective manner.

- obtain FDA approvals necessary to successfully implement the strategies described above.

For example, we are

- in exclusive license agreements with Novavax to promote, market, distribute and sell Estrasorb(TM), a topical transdermal estrogen replacement therapy, and Androsorb(TM), a topical testosterone replacement therapy for testosterone deficient women, upon their approval by the FDA;

- engaged in the development of MRE0470, a myocardial pharmacologic stress imaging agent; and

- in a licensing agreement with Novavax to develop recombinant human papillomavirus (HPC) virus-like particle (VLP) vaccines.

However, we cannot assure you that we will be successful in any or all of these projects. If we are not successful, including the failure to obtain any necessary FDA approval, our business, financial condition and results of operations could be materially adversely affected.

Further, other companies may license or develop products or may acquire

technologies for the development of products that are the same as or similar to the products we have in development or that we license. Because there is rapid technological change in the industry and because many other companies may have more financial resources than we do, other companies may

- develop or license their products more rapidly than we can,
- complete any applicable regulatory approval process sooner than we can,
- market or license their products before we can market or license our products, or
- offer their newly developed or licensed products at prices lower than our prices,

and thereby have a negative impact on the sales of our newly developed or licensed products. Technological developments or the FDA's approval of new therapeutic indications for existing products may make our existing products or those products we are licensing or developing obsolete or may make them more difficult to market successfully, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

WE DO NOT HAVE PROPRIETARY PROTECTION FOR MOST OF OUR BRANDED PHARMACEUTICAL PRODUCTS, AND OUR SALES COULD SUFFER FROM COMPETITION BY GENERIC SUBSTITUTES.

Although most of our revenue is generated by products not subject to competition from generic products, there is no proprietary protection for most of our branded pharmaceutical products, and generic substitutes for most of these products are sold by other pharmaceutical companies. In addition, governmental and other pressure to reduce pharmaceutical costs may result in physicians prescribing products for which there are

generic substitutes. Increased competition from the sale of generic pharmaceutical products may cause a decrease in revenue from our branded products and could have a material adverse effect on our business, financial condition and results of operations. In addition, our branded products for which there is no generic form available may face competition from different therapeutic agents used for the same indications for which our branded products are used.

THIRD PARTIES MANUFACTURE OR SUPPLY MATERIALS FOR MANY OF OUR PRODUCTS, AND ANY DELAYS OR DIFFICULTIES EXPERIENCED BY THEM MAY REDUCE OUR PROFIT MARGINS AND REVENUES OR HARM OUR REPUTATION.

A portion or all of many of our product lines, including Altace(R), Lorabid(R) and Cortisporin(R), are currently manufactured by third parties. Our dependence upon third parties for the manufacture of our products may adversely impact our profit margins or may result in unforeseen delays or other problems beyond our control. If for any reason we are unable to obtain or retain third-party manufacturers on commercially acceptable terms, we may not be able to distribute our products as planned. If we encounter delays or difficulties with contract manufacturers in producing or packaging our products, the distribution, marketing and subsequent sales of these products would be adversely affected, and we may have to seek alternative sources of supply or abandon or sell product lines on unsatisfactory terms. We might not be able to enter into alternative supply arrangements at commercially acceptable rates, if at all. We also cannot assure you that the manufacturers we utilize will be able to provide us with sufficient quantities of our products or that the products supplied to us will meet our specifications. The occurrence of any of these

events could have a material adverse effect on our business, financial condition, results of operations and cash flows.

DSM Pharmaceuticals, Inc. (formerly DSM Catalytica Pharmaceuticals, Inc.), one of our third-party manufacturers, informed us on November 21, 2001, that they ceased operations at their sterile manufacturing facilities in Greenville, North Carolina, as a result of FDA concerns relating to compliance issues. Due to the compliance issues, DSM Pharmaceuticals recommended that we initiate a voluntary recall of all products that they manufacture for us. As a result, we initiated a voluntary recall of these products on December 18, 2001. The products affected are Cortisporin(R) Otic Suspension, Cortisporin(R) Otic Solution, Cortisporin(R) Ophthalmic Suspension, Pediotic(R) Otic Suspension, Septra(R) IV Infusion, and Neosporin(R) GU Irrigant. DSM Pharmaceuticals has since notified us that it has addressed the compliance issues and has resumed production of our products. Based on this assurance, we have resumed distribution of some of the affected products during the first quarter of 2002 and we expect to resume distribution of the remaining affected products during the first half of 2002. However, we cannot assure you that we will resume distribution as planned or that additional product recalls will not occur in the future. The failure of DSM Pharmaceuticals to adequately address the compliance issues at its sterile manufacturing facilities in Greenville, North Carolina, and recommence production of our products in a manner that allows us to resume distribution in accordance with its written assurances to us or additional product recalls could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We require a supply of quality raw materials and components to manufacture and package pharmaceutical products for us and for third parties with which we have contracted. Generally, we have not had difficulty obtaining raw materials and components from suppliers in the past. Currently, we rely on over 500 suppliers to deliver the necessary raw materials and components. We have no reason to believe that we will be unable to procure adequate supplies of raw materials and components on a timely basis. However, if we are unable to obtain sufficient quantities of any of the raw materials or components required to produce and package our products, we may not be able to distribute our products as planned. In this case, our business, financial condition and results of operations could be materially and adversely affected.

OUR PARKEDALE FACILITY HAS BEEN THE SUBJECT OF FDA CONCERNS. IF WE CANNOT ADEQUATELY ADDRESS THE FDA'S CONCERNS, WE MAY BE UNABLE TO OPERATE THE PARKEDALE FACILITY AND, ACCORDINGLY, OUR BUSINESS MAY SUFFER.

Our Parkedale facility, located in Rochester, Michigan, manufactures both drug and biological pharmaceutical products. Prior to our acquisition of the Parkedale facility in February 1998, it was one of six Pfizer facilities subject to a consent decree issued by the U.S. District Court of New Jersey in August 1993 as a

result of FDA concerns about compliance issues within Pfizer facilities in the period before the decree was entered.

The Parkedale facility was inspected by the FDA in December 2001. When an FDA inspector completes an authorized inspection of a manufacturing facility, the FDC Act mandates that the inspector give to the owner/operator of the facility a written report listing the inspector's observations of objectionable conditions and practices. This written report is known as an "FDA Form 483" or simply as a "483." The observations in a 483 are reported to the manufacturer in order to assist the manufacturer in complying with the FDC Act and the regulations enforced by the FDA. Often a pharmaceutical manufacturer receives a

483 after an inspection and our Parkedale facility received a 483 following the December 2001 inspection. While no law or regulation requires us to respond to a 483 we have submitted a written response detailing our plan of action with respect to each of the observations made on the December 483 and our commitment to correct the objectionable practice or condition. The risk to us of a 483, if left uncorrected, could include, among other things, the imposition of civil monetary penalties, the commencement of actions to seize or prohibit the sale of unapproved or non-complying products, or the cessation of manufacturing operations at the Parkedale facility that are not in compliance with current Good Manufacturing Practices, which we refer to as "cGMPs". While we believe the receipt of the 483 will not have a material adverse effect on our business, financial condition, results of operation and cash flows, we cannot assure you that future inspections may not result in adverse regulatory actions. The 483 from December 2001 does not require us to delay or discontinue the production of any products made at the Parkedale facility.

WE ARE AT APPROXIMATELY 100% OF CAPACITY AT OUR MIDDLETON FACILITY WHICH WILL LIMIT OUR ABILITY TO INCREASE PRODUCTION OF THROMBIN-JMI(R).

We are currently implementing short-term and long-term strategies to expand our production capacity at our Middleton facility where we manufacture Thrombin-JMI(R). If we cannot successfully expand our production capacity at our Middleton facility, our ability to increase production of Thrombin-JMI(R) will be limited thereby limiting our unit sales growth for this product.

OUR QUARTERLY RESULTS, INCLUDING, IN PARTICULAR, PRODUCT SALES REVENUE, MAY FLUCTUATE, AND THESE FLUCTUATIONS MAY ADVERSELY AFFECT OUR PROFITABILITY.

Our results of operations, including, in particular, product sales revenue, may vary from quarter to quarter due to many factors. These factors include expenditures related to the acquisition, sale and promotion of pharmaceutical products, a changing customer base, the availability and cost of raw materials, interruptions in supply by third-party manufacturers, new products introduced by us or our competitors, the mix of products we sell, sales and marketing expenditures, competitive pricing pressures and general economic and industry conditions that may affect customer demand. For example, in advance of an anticipated or announced price increase, many of our customers may order pharmaceutical products in larger than normal quantities. The ordering of excess quantities in any quarter could cause sales of some of our branded pharmaceutical products to be lower in the subsequent quarter than they would have been otherwise. We cannot assure you that we will be successful in maintaining or improving our profitability or avoiding losses in any future period.

AN INCREASE IN PRODUCT LIABILITY CLAIMS, PRODUCT RECALLS OR PRODUCT RETURNS COULD HARM OUR BUSINESS.

We face an inherent business risk of exposure to product liability claims in the event that the use of our technologies or products are alleged to have resulted in adverse effects. These risks will exist for those products in clinical development and with respect to those products that receive regulatory approval for commercial sale. While we have taken, and will continue to take, what we believe are appropriate precautions, we may not be able to avoid significant product liability exposure. We currently have product liability insurance in the amount of $60.0 million for aggregate annual claims with a $100 thousand deductible per incident and a $1.0 million aggregate annual deductible; however, we cannot assure you that the level or breadth of any insurance coverage will be sufficient to cover fully all potential claims. Also, adequate insurance coverage might not be available in the future at acceptable costs, if at all.

Product recalls may be issued at our discretion or at the discretion of the

FDA, other government agencies or other companies having regulatory authority for pharmaceutical product sales. From time to time,

we may recall products for various reasons. To date, however, these recalls have not been significant and have not had a material adverse effect on our business, financial condition, results of operations and cash flows. However, we cannot assure you that the number and significance of recalls will not increase in the future.

Although product returns were approximately 2.2% of gross sales for the three months ended March 31, 2002, we cannot assure you that actual levels of returns will not increase or significantly exceed the amounts we have anticipated.

OUR WHOLLY OWNED SUBSIDIARY, JONES PHARMA INCORPORATED, IS A DEFENDANT IN LITIGATION WHICH IS CURRENTLY BEING HANDLED BY ITS INSURANCE CARRIERS. SHOULD THIS COVERAGE BE INADEQUATE OR SUBSEQUENTLY DENIED OR WERE WE TO LOSE SOME OF THESE LAWSUITS, OUR RESULTS OF OPERATIONS COULD BE ADVERSELY AFFECTED.

Our wholly owned subsidiary, Jones Pharma Incorporated, is a defendant in 852 multi-defendant lawsuits involving the manufacture and sale of dexfenfluramine, fenfluramine and phentermine, which is usually referred to as "fen/phen." In 1996, Jones acted as a distributor of Obenix(R), a branded phentermine product. Jones also distributed a generic phentermine product. We believe that Jones' phentermine products have been identified in less than 100 of the foregoing cases. The plaintiffs in these cases claim injury as a result of ingesting a combination of these weight-loss drugs. They seek compensatory and punitive damages as well as medical care and court-supervised medical monitoring. The plaintiffs claim liability based on a variety of theories including but not limited to, product liability, strict liability, negligence, breach of warranties and misrepresentation. These suits are filed in various jurisdictions throughout the United States, and in each of these suits Jones is one of many defendants, including manufacturers and other distributors of these drugs. Jones denies any liability incident to the distribution of its phentermine product and intends to pursue all defenses available to it. Jones has tendered defense of these lawsuits to its insurance carriers for handling and they are currently defending Jones in these suits. In the event that insurance coverage is inadequate to satisfy any resulting liability, Jones will have to resume defense of these lawsuits and be responsible for the damages, if any, that are awarded against it.

SALES OF THROMBIN-JMI(R) MAY BE AFFECTED BY THE PERCEPTION OF RISKS ASSOCIATED WITH SOME OF THE RAW MATERIALS USED IN ITS MANUFACTURE.

The source material for our product Thrombin-JMI(R) comes from bovine plasma and lung tissue. Bovine-sourced materials from outside the United States may be of some concern because of potential transmission of Bovine Spongiform Encephalopathy, or BSE. However, we have taken precautions to minimize the risks of contamination from BSE in our source materials including, primarily, the use of bovine materials only from FDA-approved sources in the United States. Although no BSE has been documented in the United States, the United States is considered a Category II BSE-risk country, meaning that the United States is probably BSE-free but has some history of importing cattle from the United Kingdom.

We receive the bovine raw materials from a single vendor and any interruption or delay in the supply of that material could adversely affect the sales of Thrombin-JMI(R). In addition to other actions taken by us and our vendor to minimize the risk of BSE, we are developing steps to further purify

the material of other contaminants. While we believe that our procedures and those of our vendor for the supply, testing and handling of the bovine material comply with all federal, state, and local regulations, we cannot eliminate the risk of contamination or injury from these materials. We will continue surveillance of the source and believe that the risk of BSE-contamination in the source materials for Thrombin-JMI(R) is very low. There are high levels of global public concern about BSE. Physicians could determine not to administer Thrombin-JMI(R) because of the perceived risk which could adversely affect our sales of the product. Any injuries resulting from BSE contamination could expose us to extensive liability. Also there is currently no alternative to the bovine-sourced materials for Thrombin-JMI(R). If BSE spreads to the United States, the manufacture and sale of Thrombin-JMI(R) and our business, financial condition and results of operations could be materially and adversely affected.

THE LOSS OF OUR KEY PERSONNEL COULD HARM OUR BUSINESS.

We are highly dependent on the principal members of our management staff, the loss of whose services might impede the achievement of our acquisition and development objectives. Although we believe that we are adequately staffed in key positions and that we will be successful in retaining skilled and experienced management, operational, scientific and development personnel, we cannot assure you that we will be able to attract and retain key personnel on acceptable terms. The loss of the services of key personnel could have a material adverse effect on us, especially in light of our recent growth. We do not maintain key-person life insurance on any of our employees. In addition, we do not have employment agreements with any of our key employees.

IF WE ARE UNABLE TO SECURE OR ENFORCE PATENT RIGHTS, TRADEMARKS, TRADE SECRETS OR OTHER INTELLECTUAL PROPERTY, OUR BUSINESS COULD BE HARMED.

We may not be successful in securing or maintaining proprietary patent protection for our products or products we develop or technologies we license. In addition, our competitors may develop products, including generic products, similar to ours using methods and technologies that are beyond the scope of our intellectual property protection, which could reduce our sales. The validity of patents can be subject to expensive litigation. Some of our major branded pharmaceutical products have proprietary patent protection, including Altace(R) with a composition of matter patent through October 2008. We can give you no assurance that our patents will not be challenged. Competitors may be able to develop similar or competitive products outside the scope of our patents which could have a material adverse effect on sales of our products or the amounts of royalty revenues we receive.

We also rely upon trade secrets, unpatented proprietary know-how and continuing technological innovation, where patent protection is not believed to be appropriate or attainable, in order to maintain our competitive position. We cannot assure you that others will not independently develop substantially equivalent proprietary technology and techniques or otherwise gain access to our trade secrets or disclose the technology, or that we can adequately protect our trade secrets.

OUR SHAREHOLDER RIGHTS PLAN AND BYLAWS DISCOURAGE UNSOLICITED TAKEOVER PROPOSALS AND COULD PREVENT SHAREHOLDERS FROM REALIZING A PREMIUM ON THEIR COMMON STOCK.

We have a shareholder rights plan that may have the effect of discouraging unsolicited takeover proposals. The rights issued under the shareholder rights plan would cause substantial dilution to a person or group which attempts to acquire us on terms not approved in advance by our board of directors. In addition, our charter and bylaws contain provisions that may discourage

unsolicited takeover proposals that shareholders may consider to be in their best interests. These provisions include:

- a classified board of directors;
- the ability of the board of directors to designate the terms of and issue new series of preferred stock;
- advance notice requirements for nominations for election to the board of directors; and
- special voting requirements for the amendment of our charter and bylaws.

We are also subject to anti-takeover provisions under Tennessee laws, each of which could delay or prevent a change of control. Together these provisions and the rights plan may discourage transactions that otherwise could involve payment of a premium over prevailing market prices for common stock.

OUR STOCK PRICE IS VOLATILE, WHICH COULD RESULT IN SUBSTANTIAL LOSSES FOR INVESTORS PURCHASING SHARES.

The trading price of our common stock is likely to be volatile. The stock market in general and the market for emerging growth companies, such as King in particular, have experienced extreme volatility. Many factors contribute to this volatility, including

- general market conditions;
- perceptions about market conditions in the pharmaceutical industry;
- announcements of technological innovations;
- changes in marketing, product pricing and sales strategies or development of new products by us or out competitors;
- changes in domestic or foreign governmental regulations or regulatory approval processes; and
- variations in our results of operations.

This volatility may have a significant impact on the market price of our common stock. Moreover, the possibility exists that the stock market (and in particular the securities of emerging growth companies such as King) could experience extreme price and volume fluctuations unrelated to operating performance. The volatility of our common stock imposes a greater risk of capital losses on our shareholders than would a less volatile stock. In addition, such volatility makes it difficult to ascribe a stable valuation to a shareholder's holdings of our common stock.

RISKS RELATED TO OUR INDUSTRY

FAILURE TO COMPLY WITH GOVERNMENT REGULATIONS COULD AFFECT OUR ABILITY TO OPERATE OUR BUSINESS.

Virtually all aspects of our activities are regulated by federal and state statutes and government agencies. The manufacturing, processing, formulation, packaging, labeling, distribution and advertising of our products, and disposal of waste products arising from these activities, are subject to regulation by one or more federal agencies, including the FDA, the Drug Enforcement Agency,

which we refer to as the "DEA," the Federal Trade Commission, the Consumer Product Safety Commission, the U.S. Department of Agriculture, the Occupational Safety and Health Administration and the U.S. Environmental Protection Agency, which we refer to as the "EPA," as well as by foreign governments in countries where we distribute some of our products.

Noncompliance with applicable FDA policies or requirements could subject us to enforcement actions, such as suspensions of manufacturing or distribution, seizure of products, product recalls, fines, criminal penalties, injunctions, failure to approve pending drug product applications or withdrawal of product marketing approvals. Similar civil or criminal penalties could be imposed by other government agencies, such as the DEA, the EPA or various agencies of the states and localities in which our products are manufactured, sold or distributed and could have ramifications for our contracts with government agencies such as the Veteran's Administration or the Department of Defense. These enforcement actions could have a material adverse effect on our business, financial condition and results of operations.

All manufacturers of human pharmaceutical products are subject to regulation by the FDA under the authority of the Federal Food, Drug and Cosmetic Act, known as the "FDC Act," or the Public Health Service Act, known as the "PHS Act," or both. New drugs, as defined in the FDC Act, and new human biological drugs, as defined in the PHS Act, must be the subject of an FDA-approved new drug or biologic license application before they may be marketed in the United States. Some prescription and other drugs are not the subject of an approved marketing application but, rather, are marketed subject to the FDA's regulatory discretion and/or enforcement policies. Any change in the FDA's enforcement discretion and/or policies could have a material adverse effect on our business, financial condition and results of operations.

We manufacture some pharmaceutical products containing controlled substances and, therefore, are also subject to statutes and regulations enforced by the DEA and similar state agencies which impose security, record keeping, reporting and personnel requirements on us. Additionally, we manufacture biological drug products for human use and are subject to regulatory burdens as a result of these aspects of our business.

There are additional FDA and other regulatory policies and requirements covering issues such as advertising, commercially distributing, selling, sampling and reporting adverse events associated with our products with which we must continuously comply. Noncompliance with any of these policies or requirements could result in enforcement actions which could have a material adverse effect on our business, financial condition and results of operations.

The FDA has the authority and discretion to withdraw existing marketing approvals and to review the regulatory status of marketed products at any time. For example, the FDA may require an approved marketing application for any drug product marketed if new information reveals questions about a drug's safety or efficacy. All drugs must be manufactured in conformity with cGMPs, and drug products subject to an approved application must be manufactured, processed, packaged, held and labeled in accordance with information contained in the approved application.

While we believe that all of our currently marketed pharmaceutical products comply with FDA enforcement policies, have approval pending or have received the requisite agency approvals, our marketing is subject to challenge by the FDA at any time. Through various enforcement mechanisms, the FDA can ensure that noncomplying drugs are no longer marketed and that advertising and marketing materials and campaigns are in compliance with FDA regulations. In addition,

modifications, enhancements, or changes in manufacturing sites of approved products are in many circumstances subject to additional FDA approvals which may or may not be received and which may be subject to a lengthy FDA review process. Our manufacturing facilities and those of our third-party manufacturers are continually subject to inspection by governmental agencies. Manufacturing operations could be interrupted or halted in any of those facilities if a government or regulatory authority is unsatisfied with the results of an inspection. Any interruptions of this type could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We cannot determine what effect changes in regulations, enforcement positions, statutes or legal interpretation, when and if promulgated, adopted or enacted, may have on our business in the future. Changes could, among other things, require changes to manufacturing methods or facilities, expanded or different labeling, new approvals, the recall, replacement or discontinuance of certain products, additional record keeping and expanded documentation of the properties of certain products and scientific substantiation. These changes, or new legislation, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

ANY REDUCTION IN REIMBURSEMENT LEVELS BY MANAGED CARE ORGANIZATIONS OR OTHER THIRD-PARTY PAYORS MAY HAVE AN ADVERSE EFFECT ON OUR REVENUES.

Commercial success in producing, marketing and selling products depends, in part, on the availability of adequate reimbursement from third-party health care payors, such as government and private health insurers and managed care organizations. Third-party payors are increasingly challenging the pricing of medical products and services. For example, many managed health care organizations are now controlling the pharmaceutical products that are on their formulary lists. The resulting competition among pharmaceutical companies to place their products on these formulary lists has reduced prices across the industry. In addition, many managed care organizations are considering formulary contracts primarily with those pharmaceutical companies that can offer a full line of products for a given therapy sector or disease state. We cannot assure you that our products will be included on the formulary lists of managed care organizations or that downward pricing pressures in the industry generally will not negatively impact our operations.

NEW LEGISLATION OR REGULATORY PROPOSALS MAY ADVERSELY AFFECT OUR REVENUES.

A number of legislative and regulatory proposals aimed at changing the health care system, including the cost of prescription products, reimportation of prescription products and changes in the levels at which pharmaceutical companies are reimbursed for sales of their products, have been proposed. While we cannot predict when or whether any of these proposals will be adopted or the effect these proposals may have on our business, the pending nature of these proposals, as well as the adoption of any proposal, may exacerbate

industry-wide pricing pressures and could have a material adverse effect on our financial condition, results of operations or cash flows.

THE INDUSTRY IS HIGHLY COMPETITIVE, AND OTHER COMPANIES IN OUR INDUSTRY HAVE MUCH GREATER RESOURCES THAN WE DO.

In the industry, comparatively smaller pharmaceutical companies like us compete with large, global pharmaceutical companies with substantially greater financial resources for the acquisition of products, technologies and companies. We cannot assure you that

- we will be able to continue to acquire commercially attractive pharmaceutical products, companies or technologies;

- additional competitors will not enter the market; or

- competition for acquisition of products, companies, technologies and product lines will not have a material adverse effect on our business, financial condition and results of operations.

We also compete with pharmaceutical companies in developing, marketing and selling pharmaceutical products. The selling prices of pharmaceutical products typically decline as competition increases. Further, other products now in use or acquired by other pharmaceutical companies may be more effective or offered at lower prices than our current or future products. Competitors may also be able to complete the regulatory process sooner and, therefore, may begin to market their products in advance of ours. We believe that competition for sales of our products will be based primarily on product efficacy, safety, reliability, availability and price.

COMPETITION FOR ACQUISITIONS. We compete with other pharmaceutical companies for product and product line acquisitions. These competitors include Biovail Corporation, Elan Corporation, Forest Laboratories, Inc., Galen Holdings plc, Medicis Pharmaceutical Corporation, Shire Pharmaceuticals Group plc., Watson Pharmaceuticals, Inc., and other companies which also acquire branded pharmaceutical products and product lines from other pharmaceutical companies. We cannot assure you that

- we will be able to continue to acquire commercially attractive pharmaceutical products, companies or technologies;

- additional competitors will not enter the market; or

- competition for acquisition of products, companies, technologies and product lines will not have a material adverse effect on our business, financial condition and results of operations.

PRODUCT COMPETITION. Additionally, since our products are generally established and commonly sold, they are subject to competition from products with similar qualities.

Our largest product Altace(R) competes in the market with other cardiovascular therapies, including in particular, the following ACE inhibitors:

- Zestril(R) (AstraZeneca PLC),

- Acupril(R) (Pfizer Inc.),

- Prinivil(R) (Merck & Co., Inc.),

- Lotensin(R) (Novartis AG), and

- Monopril(R) (Bristol-Myers Squibb Company).

Our second largest product Levoxyl(R) competes with the following levothyroxine sodium products:

- Synthroid(R) (Abbott Laboratories),

- Levothroid(R) (Forest Laboratories, Inc.) and

- Unithroid(R) (Watson Pharmaceuticals, Inc.).

We intend to market these products aggressively by, among other things

- detailing and sampling to the primary prescribing physician groups,

- sponsoring physician symposiums, including continuing medical education seminars, and

- conducting a direct-to-consumer advertising campaign for Altace(R).

Many of our branded pharmaceutical products have either a strong market niche or competitive position. Some of our branded pharmaceutical products face competition from generic substitutes. For example, the FDA approved for sale generic substitutes for Tapazole(R) during 2000 and Florinef(R) in March 2002.

The manufacturers of generic products typically do not bear the related research and development costs and, consequently, are able to offer such products at considerably lower prices than the branded equivalents. There are, however, a number of factors which enable products to remain profitable once patent protection has ceased. For a manufacturer to launch a generic substitute, it must prove to the FDA when filing an application to make a generic substitute that the branded pharmaceutical and the generic substitute have bioequivalence. We believe it typically takes two or three years to prove bioequivalence and receive FDA approval for many generic substitutes. By focusing our efforts in part on products with challenging bioequivalence or complex manufacturing requirements and products with a strong brand image with the prescriber or the consumer, supported by the development of a broader range of alternative product formulations or dosage forms, we are better able to protect market share and produce sustainable high margins and cash flows. However, we cannot assure you that, for any of the products, we can maintain exclusivity, protect market share or produce high margins and cashflow as a result of these efforts.

A WARNING ABOUT FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies.

These forward-looking statements are identified by their use of terms and phrases, such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will" and similar terms and phrases, including references to assumptions. These statements are contained in sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and other sections of this report.

Forward-looking statements include, but are not limited to:

- the future growth potential of, and prescription trends for our branded pharmaceutical products, particularly Altace(R), Levoxyl(R) and Thrombin-JMI(R);

- expected trends with respect to particular income and expense line items;

- the development and potential commercialization of HPV vaccines, Estrasorb(TM) and Androsorb(TM) by Novavax and King;

- the development by King Pharmaceuticals Research and Development of

MREO470, pre-clinical programs, and product life cycle development projects;

- our continued successful execution of our growth strategies;

- anticipated developments and expansions of our business;

- anticipated increases in sales of acquired products or royalty revenues;

- the success of our co-promotion agreements with Wyeth;

- the high cost and uncertainty of research, clinical trials and other development activities involving pharmaceutical products;

- the development of product line extensions;

- the unpredictability of the duration or future findings and determinations of the FDA, including the pending application related to Estrasorb(TM), and other regulatory agencies worldwide;

- the products which we expect to offer;

- the intent, belief or current expectations, primarily with respect to our future operating performance;

- expectations regarding sales growth, gross margins, manufacturing productivity, capital expenditures and effective tax rates;

- expectations regarding patent approval including those patents pending for Levoxyl(R) and Tigan(R) 300mg capsules; and

- expectations regarding our financial condition and liquidity as well as future cash flows and earnings.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from those contemplated by our forward-looking statements. These known and unknown risks, uncertainties and other factors are described in detail above in the section entitled "Risk Factors."

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Certain of our financial instruments are subject to market risks, including interest rate risk. Our financial instruments are not currently subject to foreign currency risk or commodity price risk. We have no financial instruments held for trading purposes.

As of March 31, 2002, there were no significant changes in our qualitative or quantitative market risk since the prior reporting period.

We have marketable securities which are carried at fair value based on current market quotes. Gains and losses on securities are based on the specific identification method.

The fair market value of long-term fixed interest rate debt is subject to interest rate risk. Generally, the fair market value of fixed interest rate debt will increase as interest rates rise and decrease as interest rates fall. In addition, the fair value of our convertible debentures would be impacted by our stock price.

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PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information required by this Item is incorporated by reference to Note 6 to the Condensed Consolidated Financial Statements included elsewhere in this document.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

EXHIBIT NO.		DESCRIPTION
10.20	--	Credit Agreement dated as of April 23, 2002, among King Pharmaceuticals, Inc., and the Lenders therein, Credit Suisse First Boston, Cayman Islands Branch, as Administrative Agent, as Collateral Agent and as Swingline Lender, and Bank of America, NA, J.P. Morgan Securities Inc., and UBS Warburg LLC as Co-Syndication Agents, Wachovia Bank National Association, as Documentation Agent, Credit Suisse First Boston as Sole Lead Arranger and Bookrunner.

(b) Reports on Form 8-K

We filed no Current Reports on Form 8-K during the quarter ended March 31, 2002.

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SIGNATURES

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

KING PHARMACEUTICALS, INC.

Date: May 14, 2002

By: /s/ JEFFERSON J. GREGORY

Jefferson J. Gregory
Chief Executive Officer

Date: May 14, 2002

By: /s/ JAMES R. LATTANZI

James R. Lattanzi
Chief Financial Officer

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