

KING PHARMACEUTICALS INC

Form 10-Q

November 14, 2003

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2003
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
*(State or other jurisdiction of
incorporation or organization)*

54-1684963
(I.R.S. Employer Identification No.)

501 Fifth Street, Bristol, TN
(Address of principal executive offices)

37620
(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 No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares outstanding of Registrant's common stock as of November 10, 2003: 241,140,832

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(In thousands)

	September 30, 2003 (unaudited)	December 31, 2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 118,504	\$ 588,225
Restricted cash	122,253	
Marketable securities		227,263
Accounts receivable, net of allowance for doubtful accounts of \$9,720 and \$7,513	229,305	159,987
Inventories	251,728	167,153
Deferred income taxes	101,516	106,168
Prepaid expenses and other current assets	14,133	12,906
	<u>837,439</u>	<u>1,261,702</u>
Property, plant and equipment, net	247,155	217,114
Intangible assets, net	1,785,838	1,219,571
Goodwill	126,616	12,742
Other assets (includes \$46,120 of restricted cash)	103,470	39,531
Deferred income tax assets	9,287	
	<u>\$3,109,805</u>	<u>\$2,750,660</u>
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 55,729	\$ 49,889
Accrued expenses	493,030	297,528
Income taxes payable	62,255	21,247
Current portion of long-term debt	1,176	1,300
	<u>612,190</u>	<u>369,964</u>
Long-term debt:		
Convertible debentures	345,000	345,000
Senior subordinated notes	93	93
Deferred income taxes		33,596
Other long-term liabilities	152,400	70,824
	<u>1,109,683</u>	<u>819,477</u>
Commitments and contingencies (note 8)		
Shareholders equity	2,000,122	1,931,183

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Total liabilities and shareholders' equity	<u>\$3,109,805</u>	<u>\$2,750,660</u>
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See accompanying notes.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Revenues:				
Net sales	\$407,929	\$300,708	\$1,090,881	\$815,278
Royalty revenue	16,275	14,997	47,876	41,025
Total revenues	424,204	315,705	1,138,757	856,303
Operating costs and expenses:				
Cost of revenues, exclusive of depreciation shown below	90,421	63,562	262,569	166,898
Selling, general and administrative	89,124	46,473	210,935	132,484
Co-promotion fees	46,109	53,652	163,049	134,747
Total selling, general, and administrative	135,233	100,125	373,984	267,231
Research and development	8,758	6,448	29,487	18,779
Research and development in process upon acquisition			193,000	
Total research and development	8,758	6,448	222,487	18,779
Depreciation and amortization	39,698	15,603	83,323	43,743
Intangible asset impairment			110,970	
Gain on sale of products	(10,312)		(10,312)	
Total operating costs and expenses	263,798	185,738	1,043,021	496,651
Operating income	160,406	129,967	95,736	359,652
Other income (expense):				
Interest income	1,037	5,952	5,729	17,410
Interest expense	(3,669)	(3,143)	(10,137)	(9,028)
Valuation benefit (charge) convertible notes receivable	9,338	548	24,952	(27,378)
Other, net	(36)	87	(134)	(994)
Total other income (expense)	6,670	3,444	20,410	(19,990)
Income before income tax	167,076	133,411	116,146	339,662
Income tax expense	60,989	49,166	52,267	125,699
Net income	\$106,087	\$84,245	\$63,879	\$213,963

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Income per common share:				
Basic:				
Net income	\$ 0.44	\$ 0.35	\$ 0.27	\$ 0.87
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted:				
Net income	\$ 0.44	\$ 0.35	\$ 0.26	\$ 0.87
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See accompanying notes.

Table of Contents**KING PHARMACEUTICALS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY****AND OTHER COMPREHENSIVE INCOME****(Unaudited)****(In thousands, except share data)**

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount			
Balance at December 31, 2001	247,692,984	\$ 1,361,563	\$ 546,721	\$	\$ 1,908,284
Comprehensive income:					
Net income			213,963		213,963
Unrealized gain on marketable securities, net of tax				423	423
Total comprehensive income					214,386
Stock repurchases	(6,828,680)	(155,390)			(155,390)
Exercise of stock options	397,916	3,996			3,996
Balance at September 30, 2002	241,262,220	\$ 1,210,169	\$ 760,684	\$ 423	\$ 1,971,276
Balance at December 31, 2002	240,624,751	\$ 1,201,897	\$ 729,241	\$ 45	\$ 1,931,183
Comprehensive income:					
Net income			63,879		63,879
Unrealized gain on marketable securities, net of tax				1,341	1,341
Foreign currency translation				144	144
Total comprehensive income					65,364
Exercise of stock options	512,476	3,575			3,575
Balance at September 30, 2003	241,137,227	\$ 1,205,472	\$ 793,120	\$ 1,530	\$ 2,000,122

See accompanying notes.

Table of Contents**KING PHARMACEUTICALS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Unaudited)
(In thousands)

	Nine Months Ended	
	September 30,	
	2003	2002
Cash flows from operating activities	\$ 368,485	\$ 325,552
Cash flows from investing activities:		
Purchases of marketable securities	(25,903)	(597,873)
Proceeds from the sale of marketable securities	253,097	457,461
Transfer (to)/from restricted cash	(48,083)	
Loans receivable	8,668	
Purchases of property, plant and equipment	(33,530)	(48,771)
Acquisition of primary care business of Elan	(761,745)	
Purchase of convertible senior notes		(10,044)
Acquisition of Meridian Medical Technologies, Inc., net of cash acquired	(238,498)	
Purchase of product rights	(9,000)	(120,300)
Proceeds from sale of products	13,310	
Proceeds from sale of assets	261	4,358
Net cash used in investing activities	(841,423)	(315,169)
Cash flows from financing activities:		
Proceeds from exercise of stock options, net	3,555	3,996
Purchase of common stock		(155,390)
Debt issuance costs	(214)	(4,850)
Proceeds from revolving credit facility	125,000	
Payments on revolving credit facility	(125,000)	
Payments on other long-term debt and capital lease obligations		