

KING PHARMACEUTICALS INC

Form 11-K

June 28, 2004

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**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 11-K**

(Mark one):

- ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003.

OR

- TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-24425

- A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

King Pharmaceuticals, Inc. 401(k) Retirement Savings Plan

- B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

King Pharmaceuticals, Inc., 501 Fifth Street, Bristol, Tennessee 37620

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**King Pharmaceuticals, Inc.  
401(k) Retirement Savings Plan  
Financial Statements and Supplemental Schedule  
December 31, 2003 and 2002**

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December 31, 2003 and 2002**

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Note: Other schedules required by 29 CFR 2520.130-10 of the Department of Labor's Rules and Regulations for Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.

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**Report of Independent Registered Public Accounting Firm**

To the Participants and Administrator of the  
King Pharmaceuticals, Inc. 401(k) Retirement Savings Plan

In our opinion, the accompanying statements of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the King Pharmaceuticals, Inc. 401(k) Retirement Savings Plan (the Plan ) at December 31, 2003 and 2002, and the changes in net assets available for benefits for the year ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedule of Assets (Held at End of Year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**PricewaterhouseCoopers LLP**  
**Greensboro, North Carolina**  
**June 24, 2004**

**Table of Contents****King Pharmaceuticals, Inc. 401(k) Retirement Savings Plan****Statements of Net Assets Available for Benefits  
December 31, 2003 and 2002**


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	2003	2002
<b>Assets</b>		
Investments, at fair value	\$ 60,193,500	\$ 35,529,278
Receivables:		
Contributions receivable		
Participant		295,304
Employer		94,634
Accrued income	24,668	16,518
Cash	620,112	12,851
	<u>                    </u>	<u>                    </u>
Total Assets	60,838,280	35,948,585
	<u>                    </u>	<u>                    </u>
<b>Liabilities</b>		
Accrued administrative expenses	6,823	8,655
	<u>                    </u>	<u>                    </u>
Total Liabilities	6,823	8,655
	<u>                    </u>	<u>                    </u>
Net assets available for benefits	\$ 60,831,457	\$ 35,939,930
	<u>                    </u>	<u>                    </u>

The accompanying notes are an integral part of these financial statements.

**Table of Contents****King Pharmaceuticals, Inc. 401(k) Retirement Savings Plan****Statement of Changes in Net Assets Available for Benefits  
For the Year Ended December 31, 2003**


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<b>Additions to net assets attributed to:</b>	
Net appreciation in fair value of investments	\$ 6,936,955
Participant contributions	8,141,924
Employer contributions	3,557,503
Transfer from other plans	11,081,288
Dividend and interest income	87,590
	<hr/>
Total additions	29,805,260
	<hr/>
<b>Deductions from net assets attributed to:</b>	
Benefits paid	4,893,420
Administrative expenses	20,313
	<hr/>
Total deductions	4,913,733
	<hr/>
Net increase	24,891,527
<b>Net assets available for benefits:</b>	
Beginning of year	35,939,930
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End of year	\$60,831,457
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The accompanying notes are an integral part of these financial statements.

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**King Pharmaceuticals, Inc. 401(k) Retirement Savings Plan**

**Notes to Financial Statements**

**For the years ended December 31, 2003 and 2002**

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**1. Description of Plan**

The following description of the King Pharmaceuticals, Inc. 401(k) Retirement Savings Plan (the Plan ) provides only general information. Participants should refer to the plan agreement or the Summary Plan Description for a more complete description of the Plan s provisions.

**Description of Plan Sponsor**

King Pharmaceuticals, Inc. (the Company ) was incorporated in the State of Tennessee in 1993. Its wholly-owned subsidiaries are Monarch Pharmaceuticals, Inc.; Jones Pharma Incorporated; King Pharmaceuticals Research and Development, Inc.; Meridian Medical Technologies, Inc; Parkedale Pharmaceuticals, Inc.; King Pharmaceuticals of Nevada, Inc.; and Monarch Pharmaceuticals Ireland Limited.

**General**

The Plan is a defined contribution plan, established by the Company as of January 1, 1994, under Section 401(k) of the Internal Revenue Code ( IRC ) covering substantially all employees who have completed a minimum of one hour of service and are at least 21 years of age. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ( ERISA ).

**Contributions**

Participation in the Plan is voluntary. Active participants may contribute up to 100% of earnings to the Plan in accordance with IRC Section 402(g). In 2003, each participant s deferral contributions to the Plan were limited to the IRS 2003 maximum of \$12,000. Participants can direct the investment of contributions into various investment options offered by the Plan.

Catch-up contributions, as defined by IRC Section 414(v), are allowed under the Plan document. The contributions were limited to \$2,000 in 2003 by the IRC. After-tax contributions are not allowed under the Plan document. Rollovers into the Plan from 401(a) tax qualified plans and conduit IRAs are allowed.

The Company elected to match a portion of the participants eligible contributions for the Plan year. For the time period January 1, 2003 through March 31, 2003, the Company matched 100% of employee deferrals, up to 3% of eligible compensation. From April 1, 2003 through December 31, 2003, the Company matched 100% of employee deferrals, up to 4% of eligible compensation.

**Vesting**

Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the Company s matching contribution portion of their accounts plus actual earnings thereon is based on years of continuous service. A participant is 100% vested after 3 years of credited service. A credited year of service is defined as 1,000 hours worked in a calendar year.

**Investment Options**

The Plan provided participants fifteen investment options as of December 31, 2003:

Artisan International Fund

Artisan Midcap Fund

Dreyfus Small Cap Stock Index

FAM Value Fund

Harbor International Fund

King Pharmaceuticals, Inc. Common Stock

MFS Massachusetts Investors Growth Fund

PIMCO Low Duration Institutional Fund

PIMCO Real Return Institutional Fund

PIMCO Total Return Institutional Fund

Schwab Retirement Money Market Fund



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**King Pharmaceuticals, Inc. 401(k) Retirement Savings Plan**

**Notes to Financial Statements**

**For the years ended December 31, 2003 and 2002**

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Vanguard Equity Income Fund  
Vanguard Index 500  
Vanguard Intermediate Term Bond Index Fund  
Vanguard Midcap Index Fund

The Plan provided participants eleven investment options as of December 31, 2002:

Artisan International Fund

FAM Value Fund  
King Pharmaceuticals, Inc. Common Stock  
MFS Massachusetts Investors Growth Fund  
MFS Mid Cap Growth Fund  
PIMCO Low Duration Institutional Fund  
PIMCO Total Return Institutional Fund  
Schwab Retirement Money Market  
Vanguard Equity Income Fund  
Vanguard Index 500  
Vanguard Intermediate Term Bond Index Fund

**Participant Accounts**

Participant accounts are credited for participant contributions, employer contributions, fund transfers or loan repayments with units representing interests in investment funds. Unit values are calculated daily to reflect the gains or losses of the underlying fund investments and expenses. The benefit to which a participant is entitled is the number of units in the participant's account multiplied by the appropriate unit values on the valuation date, limited to the amount which can be provided from the participant's vested account.

**Participant Loans Receivable**

Participants may borrow from their fund accounts a minimum of \$1,000 and a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. The loan repayment term is for a period not to exceed 5 years (or not to exceed 10 years if the purpose of the loan is to acquire a primary residence). The loans are secured by the balance in the participant's account and bear interest at a fixed rate of prime plus 1% established at the origination date of the loan. Interest rates on outstanding loans range from 5.0% to 10.5% as of December 31, 2003. Interest earned on principal loans receivable is allocated directly to a participant directed fund. Principal and interest are paid through payroll deductions. Participant loans are stated at cost, which approximates fair value.

**Benefit Payments**

Vested benefits of retired, disabled, or terminated employees are distributed as a single lump-sum payment or as installment payments over a fixed period of time and are recorded when paid.

**Forfeitures**

Forfeited nonvested accounts are used to reduce future employer contributions. The cumulative forfeitures balance available for use at December 31, 2003 and 2002 was \$171,199 and \$122,842, respectively.

Employer contributions were reduced by \$123,194 and \$404,602 in 2003 and 2002, respectively, by forfeited nonvested accounts.

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**King Pharmaceuticals, Inc. 401(k) Retirement Savings Plan**

**Notes to Financial Statements**

**For the years ended December 31, 2003 and 2002**

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**2. Summary of Significant Accounting Policies**

**Basis of Accounting**

The accompanying financial statements have been prepared on an accrual basis and in accordance with generally accepted accounting principles.

**Investment Valuation and Income Recognition**

In 2003, the Plan invested in mutual funds, money market funds, and a common stock. These investments are valued at fair market value based on the last sales price or, if no sale occurred on that date, the closing bid price. Purchases and sales of securities are recorded on a trade date basis. Dividends are recorded on the ex-dividend basis. The Plan presents in the Statement of Changes in Net Assets Available for Benefits the net appreciation in the fair value of its investments which consists of the realized gains and losses and the unrealized appreciation on those investments.

Realized gains and losses are recognized when securities are sold. The average cost method is used in determining the costs of the securities sold.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of increases and decreases in net assets during the reporting periods. Actual results could differ from those estimates.

**Plan Termination**

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue contributions and terminate the Plan. Upon a complete or partial termination of the Plan, the account of each affected participant will fully vest and the form and timing of payment will be as determined under the Plan at the time of Plan termination.

**Administrative Costs**

Personnel and facilities of the Plan sponsor have been used by the Plan for its administrative activities at no cost to the Plan.

**Risks and Uncertainties**

The Plan provides for various investment options in mutual funds and other investment securities. All investment options are exposed to various risks, such as interest rate, market and credit risks. Risks associated with investment options may materially affect participants' account balances and the accompanying financial statements.

**3. Tax Status**

No determination letter has been received for the Plan as it operates under a prototype document. The IRS issued an opinion letter for the prototype on August 31, 2001, stating that the form of the prototype is acceptable under

**Table of Contents****King Pharmaceuticals, Inc. 401(k) Retirement Savings Plan****Notes to Financial Statements****For the years ended December 31, 2003 and 2002**

Section 401 of the IRC for use by employers for the benefit of their employees. The Plan has been amended subsequent to the opinion letter. The Plan administrator and the Plan's ERISA counsel believe the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

**4. Investments**

The following is a summary of investments that represent 5% or more of the Plan's net assets at December 31, 2003 and 2002:

	2003	Fair Value December 31, 2002
Artisan International Fund	6,703,513	4,289,951
FAM Value Fund	3,966,070	1,884,929
King Pharmaceuticals, Inc. Common Stock	4,145,341	6,129,553
MFS Massachusetts Investors Growth Stock	4,493,073	2,552,079
PIMCO Total Return Fund Institutional Class	4,456,447	3,090,712
Schwab Retirement Money Market Fund	8,169,607	4,511,629
Vanguard Equity Income Fund	7,984,612	4,754,376
Vanguard Index Trust 500	10,922,309	6,040,698
Other	9,352,528	2,275,351
	\$60,193,500	\$35,529,278

The Company's common stock ceased to be an option for participants on June 30, 2002 and all participants in the Plan were required to have divested their investments in the Company's common stock as of March 31, 2004.

**5. Related Party Matters**

At December 31, 2003 and 2002, the Plan held investments in funds co-managed by First Tennessee National Association (First Tennessee). The Plan also contracted with First Tennessee for trustee services. The fair value of the investments in the funds was \$60,193,500 and \$35,529,278, respectively.

The Charles Schwab Trust Company (Schwab), who is also the custodian of the Plan, manages one of the investment options.

A class action complaint was filed in the United States District Court for the Eastern District of Tennessee under ERISA. As amended, the complaint alleges that the Company and certain of its executive officers, former executive officers, directors, former directors and an employee of the

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**King Pharmaceuticals, Inc. 401(k) Retirement Savings Plan**

**Notes to Financial Statements**

**For the years ended December 31, 2003 and 2002**

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Company violated fiduciary duties that they allegedly owed the Plan's participants and beneficiaries under ERISA. The Company filed a motion to dismiss the ERISA action on March 5, 2004; this motion to dismiss is currently pending. The Company intends to vigorously defend this action. Any recovery by the plaintiffs would not be paid from the assets of the Plan.

**6. Reconciliation of Financial Statements to Form 5500**

The Form 5500 for the plan has not yet been filed, however, no material difference is anticipated between the audited financial statements and the Form 5500.

**7. Plan Merger**

On January 8, 2003, the Company completed its acquisition of Meridian Medical Technologies, Inc. As of August 1, 2003, the Meridian Medical Technologies Inc. Profit Sharing Thrift Plan (the Meridian Plan) was merged into and with the Plan. On December 2, 2003, assets in the amount of \$8,900,403 were transferred from the trust account of the Meridian plan into the Schwab account of the Plan. Activity recorded in the trust account of the Meridian plan during the time period from August 1, 2003 to December 2, 2003 has been included in the financial statements herein and will be included in the Form 5500 for fiscal year 2003 to be filed by the Plan.

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**Supplemental Schedule**

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**Table of Contents****King Pharmaceuticals, Inc. 401(k) Retirement Savings Plan****Schedule of Assets (Held at End of Year)****Form 5500, Schedule H, line 4(i)****As of December 31, 2003**

a. Party in interest	b. Identity of issuer, borrower, lessor or similar party	c. Description of investment	Units/ Shares	e. Current value
	Artisan International Fund	Mutual Fund	354,495	\$6,703,513
Artisan Midcap Fund Mutual Fund 55,308 1,425,842	Dreyfus Small Cap Stock Index Mutual Fund 57,518 985,845	FAM Value Fund Mutual Fund 96,380 3,966,070		
Harbor International Fund Mutual Fund 45,512 1,674,385				
*				
King Pharmaceuticals, Inc. Common Stock Common Stock 271,640 4,145,341	MFS Massachusetts Investors Growth Stock Mutual Fund 396,915 4,493,073			
PIMCO Low-duration Fund Inst. Class Mutual Fund 52,435 536,938				
PIMCO Real Return Fund Inst. Class Mutual Fund 158,615 1,784,422				
PIMCO Total Return Fund Inst. Class Mutual Fund 416,102 4,456,447				
Vanguard Equity Income Fund Mutual Fund 357,894 7,984,612	Vanguard Mid Cap Index Fund Mutual Fund 28,280 371,319	Vanguard Index Trust 500 Mutual Fund 106,527 10,922,309		
Vanguard Intermediate-Term Bond Fund Mutual Fund 152,019 1,625,087				
2,549,640 51,075,203	*			
Schwab Retirement Money Market Fund Money Market Fund 8,169,607 8,169,607	Participant Loans Interest rates of 5.0% to 10.5% 948,690			
10,719,247 \$60,193,500				



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Column (d) is omitted for participant directed investments.

\* Represents party-in-interest.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

**King Pharmaceuticals, Inc. 401(k) Retirement Savings Plan**

Date: June 24, 2004

/s/ James R. Lattanzi

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James R. Lattanzi  
Chief Financial Officer

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**EXHIBIT INDEX**

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