

King Pharmaceuticals, Inc.
Risk Factors

Before you purchase our securities, you should carefully consider the risks described below and the other information contained in our annual report on Form 10-K for the year ended December 31, 2008, including our audited consolidated financial statements and related notes contained therein. 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 below or in other sections of our 2008 annual report on Form 10-K 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 we cannot successfully defend our rights under the patents relating to our key products, such as Skelaxin[®], or if we are unable to secure or defend our rights under other patents and trademarks and protect our trade secrets and other intellectual property, additional competitors could enter the market, and sales of affected products may decline materially.

Under the Hatch-Waxman Act, any generic pharmaceutical manufacturer may file an ANDA with a certification, known as a “Paragraph IV certification,” challenging the validity of or claiming non-infringement of a patent listed in the FDA’s Approved Drug Products with Therapeutic Equivalence Evaluations, which is known as the “FDA’s Orange Book,” four years after the pioneer company obtains approval of its NDA. As more fully described in Note 19, “Commitments and Contingencies,” in Part IV, Item 15(a)(1), “Financial Statements,” of our annual report on Form 10-K for the year ended December 31, 2008, other companies have filed Paragraph IV certifications challenging the patents associated with some of our key products. If any of these Paragraph IV challenges succeeds, our affected product would face generic competition and its sales would likely decline materially. Should sales decline, we may have to write off a portion or all of the intangible assets associated with the affected product.

We may not be successful in securing or maintaining proprietary patent protection for products we currently market or for products and technologies we develop or license. In addition, our competitors may develop products similar to ours, including generic products, using methods and technologies that are beyond the scope of our intellectual property protection. The appearance in the market of products developed in this way could materially reduce our sales.

There is no proprietary protection for many of our branded prescription pharmaceutical products, and generic substitutes for many of these products are sold by other pharmaceutical companies. Further, we also rely upon trade secrets, unpatented proprietary know-how and continuing technological innovation in order to maintain our competitive position with respect to some products. Our sales could be materially reduced if our competitors independently develop equivalent proprietary technology and techniques or gain access to our trade secrets, know-how and technology.

If we are unable to defend our patents and trademarks or protect our trade secrets and other intellectual property, our results of operations and cash flows could be materially and adversely affected.

Additionally, certain of our supply agreements and purchase orders for raw materials contain minimum purchase commitments. If loss of market exclusivity or other factors cause sales of our products to fall below amounts necessary to use the inventory we have committed to purchase, we may incur losses in connection with those supply agreements or purchase orders.

In January 2009, two key patents associated with Skelaxin[®] were ruled invalid by a federal court, and net sales of Skelaxin[®] may decrease significantly as a result. Our related restructuring initiative might not succeed, and, in any event, the benefits of the initiative will not be sufficient to offset the loss of revenues from decreased Skelaxin[®] sales.

In January 2009, a U.S. District Court ruled invalid two key patents related to Skelaxin[®]. We plan to appeal, upon entry of an appropriate judgment, but the appeal may be unsuccessful.

Following the decision of the District Court, we conducted an extensive examination of the company and developed a restructuring initiative designed to partially offset the potential material decline in Skelaxin[®] sales in the event that a generic competitor entered the market. This initiative includes, based on an analysis of our strategic needs: a reduction in sales, marketing and other personnel; leveraging of staff; expense reductions and additional controls over spending; and reorganization of sales teams.

If we are unable to complete the objectives of this initiative, our business and results of operations may be materially adversely affected. Moreover, if a generic competitor enters the market, the anticipated benefits of the restructuring initiative will not be sufficient to offset the loss of revenues from decreased Skelaxin[®] sales.

We undertook borrowings totaling \$625 million in connection with our acquisition of Alpharma. Our obligations to repay these borrowings will materially limit our ability to invest in other aspects of our business, to borrow other funds, to engage in other transactions and to take a variety of other actions. In addition, our future cash flows may not be sufficient to repay these borrowings.

In connection with the acquisition of Alpharma on December 29, 2008, we borrowed \$425.0 million in principal amount under our \$475.0 million revolving credit facility, as amended on December 5, 2008 (the "Revolving Credit Facility"). We also entered into a new \$200.0 million term loan credit agreement, comprised of a four-year senior secured loan facility (the "Term Facility").

A substantial portion of our operating cash flow will be dedicated to the payment of principal and interest on these debts, and our obligations to repay these debts will therefore limit our ability to invest in other aspects of our business (such as product development), to borrow other funds, to engage in other transactions and to take a variety of other actions.

The Revolving Credit Facility requires certain automatic and permanent reductions in the commitment over the life of the facility. The Term Facility requires repayment in certain quarterly installments, as outlined in the agreement, over the life of the facility. In addition, the Revolving Credit Facility and the Term Facility require mandatory prepayment equal to 50% of our annual excess cash flows, which can be reduced to 25% based on certain events. There are also mandatory prepayments upon certain events, such as an asset sale, the issuance of debt or equity, or the liquidation of auction rate securities.

The Revolving Credit Facility and the Term Facility contain certain covenants that, among other things, restrict additional indebtedness, liens and encumbrances, sale and leaseback transactions, loans and investments, acquisitions and purchases, dividends and other restricted payments, transactions with affiliates, asset dispositions, mergers and consolidations, prepayments, redemptions and repurchases of other indebtedness and other matters customarily restricted in such agreements.

The Revolving Credit Facility and the Term Facility also contain customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to certain other material indebtedness in excess of specified amounts, certain events of bankruptcy and insolvency, certain ERISA events, judgments in excess of specified amounts, certain impairments to the guarantees, and change in control. The breach of any covenants or obligations under the Revolving Credit Facility or the Term Facility could result in a default which could trigger acceleration of (or the right to accelerate) the related debt. Because of cross-default provisions in the agreements and instruments governing our indebtedness, a default under one agreement or instrument could result in a default under, and the acceleration of, our other indebtedness. In addition, our lenders would be entitled to proceed against

the collateral securing the indebtedness. If any of our indebtedness were to be accelerated, it could adversely affect our ability to operate our business or we may be unable to repay such debt, and, therefore, such acceleration could adversely affect our results of operations, financial condition and, consequently, the price of our common stock.

For more information about the terms of the Revolving Credit Facility and the Term Facility, please see Note 13, "Long Term Debt," in Part IV, Item 15(a)(1), "Financial Statements," of our annual report on Form 10-K for the year ended December 31, 2008.

If we cannot integrate the business of companies or products we acquire, or appropriately and successfully manage and coordinate third-party collaborative development activities, our business may suffer. In particular, there are risks associated with the integration of our business with Alharma Inc., which we acquired in December 2008.

The integration into our business of in-licensed or acquired assets or businesses, as well as the coordination and collaboration of research and development, sales and marketing efforts with third parties, requires significant management attention, maintenance of adequate operational, financial and management information systems, integration of systems that we acquire into our existing systems, and verification that the acquired processes and systems meet applicable standards for internal control over financial reporting. Our future results will also depend in part on our ability to hire, retain and motivate qualified employees to manage expanded operations efficiently in accordance with applicable regulatory standards. If we cannot manage our third-party collaborations and integrate in-licensed and acquired assets successfully, or, if we do not establish and maintain appropriate processes in support of these activities, this could have a material adverse effect on our business, financial condition, results of operations and cash flows and on our ability to make the necessary certifications with respect to our internal controls.

On December 29, 2008, we completed the acquisition of Alharma Inc., a specialty pharmaceutical company that develops, manufactures and markets pharmaceutical products for humans and animals.

There are a number of risks associated with our integration of Alharma's operations into ours, including, but not limited to, the following:

- The combination may not enhance our business to the extent we expect or may not result in operating or product synergies, and could have a negative impact on our earnings;
- The process of integrating Alharma's business with ours, and/or the measures required to effectively use acquired intellectual property, products or other assets, could be time consuming and may result in unforeseen operating difficulties and/or expenses;
- We may not be able to retain Alharma's key employees or maintain its critical business and customer relationships;
- There may be unforeseen liabilities or other material facts that could adversely affect our business. For example, litigation or other claims made in connection with, or inheritance of claims or litigation risks as a result of, the acquisition of Alharma could be time consuming and may create difficulties and expenses which are not currently anticipated. Please see Note 19, "Commitments and Contingencies," in Part IV, Item 15(a)(1), "Financial Statements," of our annual report on Form 10-K for the year ended December 31, 2008.
- The intangible assets and goodwill recorded in connection with the acquisition could be subject to impairment charges. There is also the risk of significant accounting charges resulting from the completion and integration of this sizeable acquisition and increased capital expenditures.

The uncertainty and expense of the drug development process, actions by our competitors and other factors may adversely affect our ability to implement our strategy to grow our business through

increased sales, acquisitions, development and in-licensing, and, as a result, our business or competitive position in the pharmaceutical industry may suffer.

Drug development is time-consuming and expensive. Only a small percentage of chemical compounds discovered by researchers prove to be both medically effective and safe enough to become an approved medicine. The process from discovery to regulatory approval typically takes 10 to 15 years or longer. Drug candidates can fail at any stage of the process, and even late-stage product candidates sometimes fail to receive regulatory approval.

Clinical trials are conducted in a series of sequential phases, with each phase designed to address a specific research question. In Phase I clinical trials, researchers test a new drug or treatment in a small group of people to evaluate the drug's safety, determine a safe dosage range, and identify side effects. In Phase II clinical trials, researchers give the drug or treatment to a larger population to assess effectiveness and to further evaluate safety. In Phase III clinical trials, researchers give the drug or treatment to an even larger population to confirm its effectiveness, monitor side effects, compare it to commonly used treatments, and collect information that will allow the drug or treatment to be used safely. The results of Phase III clinical trials are pivotal for purposes of obtaining FDA approval of a new product.

The processes by which regulatory approvals are obtained from the FDA to market and sell a new product are complex, require a number of years and involve the expenditure of substantial resources. Compounds or potential new products that appear promising in development can prove unsuccessful and fail to receive FDA approval, fail to receive approval of specific anticipated indications, be substantially delayed, or receive unfavorable product labeling (including indications or safety warnings), each of which can materially affect the commercial value of the product. Additional factors that may materially affect the success and/or timing of regulatory approval of a new product, and its commercial potential, include the regulatory filing strategies employed, the timing of and delays in FDA review, and the intervention by third parties in the approval process through administrative or judicial means. As a result, there can be no assurance that we will receive regulatory approval of our products in development, or of new dosage forms for existing products, that our products or dosage forms will receive approval for specific indications or that the labeling of these products will be as we would prefer.

Our current strategy is to increase sales of certain of our existing products and to enhance our competitive standing through the acquisition or in-licensing of products, either in development or previously approved by the FDA, that complement our business and allow 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 the development of new chemical entities, we rely heavily on purchasing or licensing products in development and FDA-approved products from other companies.

Branded prescription pharmaceutical development projects, including those for which we have collaboration agreements with third parties, include the following:

- Embeda™, a drug for the treatment of moderate to severe chronic pain;
- Remoxy™, a drug for the treatment of moderate to severe chronic pain that we are developing with Pain Therapeutics, Inc.;
- Acurox® Tablets, a drug for the treatment of moderate to severe pain that we are developing with Acura Pharmaceuticals, Inc.;
- CorVue™ (binodenoson), a myocardial pharmacologic stress imaging agent;
- Ketoprofen in Transfersome® gel, a topical drug for local pain relief;
- Eladur®, a patch for the treatment of pain associated with postherpetic neuralgia;
- Vanquix™, a diazepam-filled auto-injector for the treatment of acute, repetitive epileptic seizures;

- T-62, a drug for the treatment of neuropathic pain;
- Oxycodone NT, a drug for treatment of moderate to severe chronic pain; and
- Hydrocodone NT, a drug for treatment of moderate to severe chronic pain.

We compete with other pharmaceutical companies, including large pharmaceutical companies with financial, human and other resources 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,
- continue to develop products already in development in a cost effective manner, or
- obtain any FDA approvals necessary to successfully implement the strategies described above.

If we are not successful in the development or licensing of new products already in development, including obtaining any necessary FDA approvals, our business, financial condition, and results of operations could be materially adversely affected.

Additionally, since our currently marketed products are generally established and commonly sold, they are subject to competition from products with similar qualities. For example:

- Altace[®] has multiple generic substitutes that entered the market in December 2007 and in 2008.
- Skelaxin[®] competes in a highly genericized market with other muscle relaxants and could be subject to additional competition from generic products following a court's order ruling invalid two patents related to Skelaxin[®] in January 2009.
- Sonata[®] competes with other insomnia treatments in a highly competitive market. A generic substitute entered the market in the second quarter of 2008.
- Levoxy[®] competes in a competitive and highly genericized market with other levothyroxine sodium products.
- Beginning in the fourth quarter of 2007, Thrombin-JMI[®], our bovine thrombin product, faced new competition from human thrombin and recombinant human thrombin.

Other of our branded prescription pharmaceutical products also face competition from generic substitutes.

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. We cannot assure you that any of our products will not face generic competition, or maintain their market share, gross margins and cash flows, the failure of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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.

Any of these events would thereby have a negative effect on the sales of our existing, newly developed or licensed products. The inability to effect acquisitions or licenses of additional branded products in development and FDA-approved 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. Technological developments or the FDA's approval of new products or 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 results of operations and cash flows.

We are required annually, or on an interim basis as needed, to review the carrying value of our intangible assets and goodwill for impairment. If sales of our products decline because of, for example, generic competition or an inability to manufacture or obtain sufficient supply of product, the intangible asset value of any declining product could become impaired.

As of December 31, 2008, we had approximately \$1.4 billion of net intangible assets and goodwill. Intangible assets primarily include the net book value of various product rights, trademarks, patents and other intangible rights. If a change in circumstances causes us to lower our future sales forecast for a product, we may be required to write off a portion of the net book value of the intangible assets associated with that product. In evaluating goodwill for impairment, we estimate the fair value of our individual business reporting units on a discounted cash flow basis. In the event the value of an individual business reporting unit declines significantly, it could result in a non-cash impairment charge. Any impairment of the net book value of any intangible asset or goodwill, depending on the size, could result in a material adverse effect on our business, financial condition and results of operations.

We have entered into agreements with manufacturers and/or distributors of generic pharmaceutical products with whom we are presently engaged, or have previously been engaged, in litigation, and these agreements could subject us to claims that we have violated federal and/or state anti-trust laws.

We have negotiated and entered into a number of agreements with manufacturers and/or distributors of generic pharmaceutical products, some of whom are presently engaged or have previously been engaged in litigation with us. Governmental and/or private parties may allege that these arrangements and activities in furtherance of the success of these arrangements violate applicable federal or state anti-trust laws. Alternatively, courts could interpret these laws in a manner contrary to current understandings of and past rulings relating to such laws. If a court or other governmental body were to conclude that a violation of these laws had occurred, any liability based on such a finding could be materially adverse and could be preceded or followed by private litigation such as class action litigation.

For example, we have received civil investigative demands ("CIDs") for information from the U.S. Federal Trade Commission ("FTC"). The CIDs require us to provide information related to our collaboration with Arrow, the dismissal without prejudice of our patent infringement litigation against Cobalt under the Hatch-Waxman Act of 1984 and other information. We are cooperating with the FTC in this investigation.

An expansion of the ban of the use of antibiotics used in food-producing animals could result in a decrease in our sales.

The issue of the potential transfer of increased bacterial resistance to human pathogens due to the use of certain antibiotics in certain food-producing animals is the subject of discussions on a worldwide basis and,

in certain instances, has led to government restrictions on the use of antibiotics in these food-producing animals. While most of the government activity in this area has involved products other than those that we offer for sale, the European Union (“EU”) and a number of non-EU countries, including Norway and Turkey, banned the use of zinc bacitracin, a feed antibiotic growth promoter manufactured by us and others that has been used in livestock feeds for over 40 years, as a feed additive growth promoter. We have not sold this product as a feed additive growth promoter in these countries since the bans took effect (initially in the EU in July 1999; in Turkey, Bulgaria and Romania (the latter two now part of the EU) in 2000; and in Norway in January 2006). The EU ban is based upon the “Precautionary Principle,” which states that a product may be withdrawn from the market based upon a finding of a potential threat of serious or irreversible damage even if such finding is not supported by scientific certainty.

Taiwan, South Korea and Brazil have implemented, or are expected to implement shortly, restrictions on the use of antibiotics in animal feed. We have marketed antibiotics for use in food-producing animals in these countries but will be required to curtail or discontinue those practices. The actions by these countries may negatively impact our business as a result of reduced sales. It is not yet known whether this reduction will be material to our financial position or its results of operations.

We cannot predict whether the present zinc bacitracin ban or other antibiotic restrictions will be expanded. If any one of the following events occurs, the resultant loss of sales could be material to our financial condition, cash flows and results of operations:

- the EU, countries within or outside the EU, or meat importers act to prevent the importation of meat products from countries that allow the use of bacitracin-based or other antibiotic-containing products,
- there is an expansion of the zinc bacitracin ban to additional countries, such as the U.S., where we have material sales of bacitracin-based products,
- a similar ban is instituted relating to other antibiotic feed additives sold by us in the U.S. or in one or more other countries where we have material sales, or
- there is an increase in public pressure to discontinue the use of antibiotic feed additives.

We cannot predict whether this antibiotic resistance concern will result in expanded regulations or public pressure adversely affecting other antibiotic-based animal health products previously sold by us in the jurisdictions where the ban has been imposed or in other countries in which those products are presently sold.

Discussions of the antibiotic resistance issue continue actively in the U.S. Various sources have published reports concerning possible adverse human effects from the use of antibiotics in food animals. Some of these reports have asserted that major animal producers, some of whom are our customers or the end-users of our products, are reducing the use of antibiotics. In July 2005, the FDA withdrew the approval of an antibiotic poultry water medication due to concerns regarding antibiotic resistance in humans. While we do not market this drug, this ruling would be significant if its conclusions were expanded to the medicated feed additives sold by us. It is uncertain what additional actions, if any, the FDA may take for approved animal drug products. However, the FDA has established a rating system to be used to compare the risks associated with the use of specific antibiotic products in food producing animals, including those sold by us. While we do not believe that the presently proposed risk assessment system would be materially adverse to our business, it is subject to change prior to adoption or to later amendment. The sales of our animal health segment are principally antibiotic-based products for use with food-producing animals; therefore, the future loss of major markets, including the U.S., or negative publicity regarding this use of antibiotic-based products, could have a negative impact on our business, financial condition, results of operations and cash flows.

Unfavorable results in pending and future claims and litigation matters could have an adverse impact on us.

We are named as a party in various lawsuits. For information about our pending material litigation matters, please see Note 19, "Commitments and Contingencies," in Part IV, Item 15(a)(1), "Financial Statements," of our annual report on Form 10-K for the year ended December 31, 2008. While we intend to vigorously defend ourselves in these actions, we are generally unable to predict the outcome or reasonably estimate the range of potential loss, if any, in the pending litigation. If we were not to prevail in the pending litigation, we could be required to pay material sums in connection with judgments or settlements related to these matters, or the pending litigation could otherwise have a material adverse effect on our business, results of operations, financial condition and cash flows.

Potential adverse effects on human health linked to the raising or consumption of food-producing animals using our products could result in a decrease in our sales.

Should the government find, or the public perceive, a risk to human health from consumption of food-producing animals which utilize our products (such as Avian flu) or as a by-product to the raising of such animals, such as the "Chicken Litter" litigation, there may be a decline in either the sale of these food products, which would result in a decrease in the use of our products, or a decrease in the use of our products in the growing of these food-producing animals. For additional information regarding the "Chicken Litter" litigation, please see Note 19, "Commitments and Contingencies", in Part IV, Item 15(a)(1), "Financial Statements," of our annual report on Form 10-K for the year ended December 31, 2008.

Any significant delays or difficulties in the manufacture of, or supply of materials for, our products may reduce our profit margins and revenues, limit the sales of our products, or harm our products' reputations.

Many of our products, including Skelaxin[®], the Flector[®] Patch, Thrombin-JMI[®], Avinza[®] and certain animal health products and ingredients, are currently manufactured in part or entirely by third parties. Our dependence upon third parties for the manufacture of certain products may adversely affect our profit margins or may result in unforeseen delays or other problems beyond our control. For example, if any of these third parties is not in compliance with applicable regulations, the manufacture of our products could be delayed, halted or otherwise adversely affected. 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.

Further, if we encounter other delays or difficulties in producing or packaging products either handled by third parties or by us, the distribution, marketing and subsequent sales of these products could be adversely affected, and we may have to seek alternative sources of supply or abandon product lines or sell them on unsatisfactory terms. We might not be able to enter into alternative supply arrangements in a timely manner or at commercially acceptable rates, if at all. We also cannot assure you that third-party manufacturers we use will be able to provide us with sufficient quantities of our products or that the products supplied to us will meet our specifications.

Sales of Thrombin-JMI[®] may be affected by the perception of risks associated with some of the raw materials used in its manufacture. If we are unable to maintain purification procedures at our facilities that are in accordance with the FDA's expectations for biological products generally, the FDA could limit our ability to manufacture biological products at those facilities.

For the twelve months ended December 31, 2008, our product Thrombin-JMI[®] accounted for 16.3% of our total revenues from continuing operations. The source material for Thrombin-JMI[®] comes from bovine plasma and lung tissue which has been certified by the United States Department of Agriculture for use in the manufacture of pharmaceutical products. Bovine-sourced materials, particularly those 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 and process. Our principal precaution is the use of bovine materials only from FDA-approved sources in the United States. Accordingly, all source animals used in our production of Thrombin-JMI[®] are of United States origin. Additionally, source animals used in production of Thrombin-

JMI[®] are generally less than 18 months of age (BSE has not been identified in animals less than 30 months of age).

There is currently no alternative to the bovine-sourced materials for the manufacture of Thrombin-JMI[®]. We have two approved vendors as sources of supply of the bovine raw materials. Any interruption or delay in the supply of these materials could adversely affect the sales of Thrombin-JMI[®]. We will continue surveillance of the source and believe that the risk of BSE contamination in the source materials for Thrombin-JMI[®] is very low. 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. There are high levels of global public concern about BSE. Physicians could determine not to administer Thrombin-JMI[®] 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. If public concern about the risk of BSE infection in the United States should increase, the manufacture and sale of Thrombin-JMI[®] and our business, financial condition, results of operations and cash flows could be materially and adversely affected.

The FDA expects manufacturers of biological products to have validated processes capable of removing extraneous viral contaminants to a high level of assurance. We have developed and implemented appropriate processing steps to achieve maximum assurance that potential extraneous viral contaminants are removed from Thrombin-JMI[®], which does not include BSE because it is not a viral contaminant, and we gained FDA approval for these processes. If we are unable to successfully maintain these processing steps or obtain the necessary supplies to do so in accordance with the FDA's expectations, the manufacture and sale of Thrombin-JMI[®] and our business, financial condition, results of operations and cash flows could be materially and adversely affected.

Wholesaler and distributor buying patterns and other factors may cause our quarterly results to fluctuate, and these fluctuations may adversely affect our short-term results. Further, our access to wholesaler and distributor inventory levels and sales data affects our ability to estimate certain reserves included in our financial statements.

Our results of operations, including, in particular, product sales revenue, may vary from quarter to quarter due to many factors. Sales to wholesalers and distributors represent a substantial majority of our total sales. Buying patterns of our wholesalers and distributors may vary from time to time. In the event wholesalers and distributors with whom we do business determine to limit their purchases of our products, sales of our products could be adversely affected. For example, in advance of an anticipated price increase, customers may order branded prescription pharmaceutical products in larger than normal quantities. The ordering of excess quantities in any quarter could cause sales of some of our branded prescription pharmaceutical products to be lower in subsequent quarters than they would have been otherwise. We have inventory management and data services agreements with each of the three key branded prescription pharmaceutical products wholesale customers and other wholesale customers who purchase our branded prescription pharmaceutical products. These agreements provide wholesalers incentives to manage inventory levels and provide timely and accurate data with respect to inventory levels held, and valuable data regarding sales and marketplace activity. We rely on the timeliness and accuracy of the data that each customer provides to us on a regular basis pursuant to these agreements. If our wholesalers fail to provide us with timely and accurate data in accordance with the agreements, our estimates for certain reserves included in our financial statements could be materially and adversely affected.

Other factors that may affect quarterly results include, but are not limited to, 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, interruptions in our internal manufacturing processes, product recalls, competitive pricing pressures and general economic and industry conditions that may affect customer demand. We cannot assure you that we will be successful in maintaining or improving our profitability or avoiding losses in any future period.

Our relationships with the U.S. Department of Defense and other government entities subject us to risks associated with doing business with the government.

All U.S. government contracts provide that they may be terminated for the convenience of the government as well as for default. Our Meridian Auto-Injector segment has pharmaceutical products that are presently sold primarily to the U.S. Department of Defense (“DoD”) under an Industrial Base Maintenance Contract (“IBMC”). The current IBMC expires on March 31, 2009, and we are in negotiations regarding renewal. Although we have reason to believe the DoD will renew the IBMC based on our relationship of many years, we cannot assure you that it will do so or whether this renewal will be timely. In the event the DoD does not renew the IBMC, our business, financial condition, results of operations and cash flows could be materially adversely affected. Additionally, the unexpected termination of one or more of our significant government contracts could result in a material adverse effect on our business, financial condition, results of operations and cash flows. A surge capability provision allows for the coverage of defense mobilization requirements in the event of rapid military deployment. If this surge capability provision becomes operative, we may be required to devote more of our Meridian Auto-Injector segment manufacturing capacity to the production of products for the government, which could result in less manufacturing capacity being devoted to products in this segment with higher profit margins.

Our supply contracts with the DoD are subject to pre- and post-award audits and potential price determination. These audits may include a review of our performance on the contract, our pricing practices, our cost structure and our compliance with applicable laws, regulations and standards. Any costs found to be improperly allocated to a specific contract will not be reimbursed, while costs already reimbursed must be refunded. Therefore, a post-award audit or price redetermination could result in an adjustment to our revenues. From time to time the DoD makes claims for pricing adjustments with respect to completed contracts. If a government audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or disqualification from doing business with the government.

Other risks involved in government sales include the unpredictability in funding for various government programs and the risks associated with changes in procurement policies and priorities. Reductions in defense budgets may result in reductions in our revenues. We also provide our nerve agent antidote auto-injectors to a number of state agencies and local communities for homeland defense against chemical agent terrorist attacks. Changes in governmental and agency procurement policies and priorities may also result in a reduction in government funding for programs involving our auto-injectors. A loss in government funding of these programs could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We are subject to the risks of doing business outside of the United States.

Future growth rates and success of our animal health and auto-injector businesses depend in part on continued growth in our operations outside of the United States. In the case of animal health, we have both sales and manufacturing operations outside the United States and numerous risks and uncertainties affect those operations. These risks and uncertainties include political and economic instability, changes in local governmental laws, regulations and policies, including those related to tariffs, investments, taxation, employment regulations, repatriation of earnings, enforcement of contract and intellectual property rights and currency exchange fluctuations and restrictions.

International transactions may also involve increased financial and legal risks due to differing legal systems and customs, including risks of non-compliance with U.S. and local laws such as the U.S. Foreign Corrupt Practices Act and the U.S. Arms Export Control Act and the International Traffic in Arms Regulations affecting our activities abroad.

While the impact of these factors is difficult to predict, any of them could adversely affect our business, financial condition, operating results or cash flows. If we were to violate local or U.S. laws, we may be subject to fines, penalties, other costs, loss of ability to do business with the U.S. government or other

business-related effects which could adversely affect our business, financial condition, results of operations and cash flows.

Compliance with the terms and conditions of our corporate integrity agreement with the Office of Inspector General of the United States Department of Health and Human Services requires significant resources and management time and, if we fail to comply, we could be subject to penalties or, under certain circumstances, excluded from government health care programs, which could materially reduce our sales.

In October 2005, as part of our settlement of a government pricing investigation of our company, we entered into a five-year corporate integrity agreement (“CIA”) with the Office of Inspector General of the United States Department of Health and Human Services (“HHS/OIG”). For additional information, please see Note 19, “Commitments and Contingencies,” in Part IV, Item 15(a)(1), “Financial Statements,” of our annual report on Form 10-K for the year ended December 31, 2008. The purpose of the CIA, which applies to all of our U.S. subsidiaries and employees, is to promote compliance with the federal health care and procurement programs in which we participate, including the Medicaid Drug Rebate Program, the Medicare Program, the 340B Drug Pricing Program, and the Veterans Administration Pricing Program.

In addition to the challenges associated with complying with the regulations applicable to each of these programs (as discussed below), we are required, among other things, to keep in place our current compliance program, provide specified training to employees, retain an independent review organization to conduct periodic audits of our Medicaid Rebate calculations and our automated systems, processes, policies and practices related to government pricing calculations, and to provide periodic reports to HHS/OIG.

Maintaining the broad array of processes, policies and procedures necessary to comply with the CIA is expected to continue to require a significant portion of management’s attention as well as the application of significant resources. Failing to meet the CIA obligations could have serious consequences for us including stipulated monetary penalties for each instance of noncompliance. In addition, flagrant or repeated violations of the CIA could result in our being excluded from participating in government health care programs, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our charter and bylaws and applicable state laws discourage unsolicited takeover proposals and could prevent shareholders from realizing a premium on their common stock.

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, although the classification of the Board is being phased out and will be eliminated in 2010;
- the ability of our Board of Directors to designate the terms of and issue new series of preferred stock;
- advance notice requirements for nominations for election to our 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 law, each of which could delay or prevent a change of control. Together, these provisions may discourage transactions that otherwise could involve payment of a premium over prevailing market prices for our common stock.

At times, our stock price has been volatile, and such volatility in the future could result in substantial losses for our investors.

The trading price of our common stock has at times been volatile. The stock market in general and the market for the securities of emerging pharmaceutical companies such as King, in particular, have experienced extreme volatility. Many factors contribute to this volatility, including:

- variations in our results of operations;
- perceived risks and uncertainties concerning our business;
- announcements of earnings;
- the commencement of, or adverse developments in, any material litigation or governmental investigation;
- failure to meet timelines for product development or other projections or forward-looking statements we may make to the public;
- failure to meet or exceed security analysts' financial projections for our company;
- comments or recommendations made by securities analysts;
- general market conditions;
- perceptions about market conditions in the pharmaceutical industry;
- announcements of technological innovations or the results of clinical trials or studies;
- changes in marketing, product pricing and sales strategies or development of new products by us or our competitors;
- changes in domestic or foreign governmental regulations or regulatory approval processes; and
- announcements concerning regulatory compliance and government agency reviews.

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 Industries

Failure to comply with laws and government regulations could adversely affect our ability to operate our business.

Virtually all of our activities are regulated by U.S. federal and state statutes and government agencies as well as laws and agencies in foreign countries. The manufacturing, processing, formulation, packaging, labeling, distribution and marketing 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, or "DEA," the Federal Trade Commission, the Consumer Product Safety Commission, the Department of Agriculture, the Occupational Safety and Health Administration, and the Environmental Protection Agency ("EPA"), as well as by foreign governments in countries where we manufacture or distribute products.

Failure to comply with the policies or requirements established by these agencies could subject us to enforcement actions or other consequences. For example, noncompliance with applicable FDA policies or requirements could subject us to 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 Department of Veterans Affairs or the Department of Defense.

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 withdrawal of an approved marketing application for any drug product marketed if new information reveals problems with a drug's safety or efficacy. All drugs must be manufactured in conformity with current Good Manufacturing Practices 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 result in materially reduced sales of our products or increased manufacturing costs. For additional information please see the section entitled "Government Regulation" in Item 1, "Business," in Part I, of our annual report on Form 10-K for the year ended December 31, 2008

Under the Comprehensive Environmental Response, Compensation, and Liability Act, "CERCLA," the EPA can impose liability for the entire cost of cleanup of contaminated properties upon each or any of the current and former site owners, site operators or parties who sent waste to the site, regardless of fault or the legality of the original disposal activity. In addition, many states, including Tennessee, Michigan, Wisconsin, Florida and Missouri, have statutes and regulatory authorities similar to CERCLA and to the EPA. We have entered into hazardous waste hauling agreements with licensed third parties to properly dispose of hazardous wastes. We cannot assure you that we will not be found liable under CERCLA or other applicable state statutes or regulations for the costs of undertaking a cleanup at a site to which our wastes were transported.

We cannot determine what effect changes in regulations, enforcement positions, statutes or legal interpretations, when and if promulgated, adopted or enacted, may have on our business in the future. These changes could, among other things, require modifications to our 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, new legislation, or failure to comply with existing laws and regulations could have a material adverse effect on our business, financial condition, results of operations and cash flows.

New legislation or regulatory proposals may adversely affect our revenues.

A number of legislative and regulatory proposals have been proposed and could be proposed in the future that are aimed at changing the health care system, easing safeguards that limit importation and reimportation of prescription products from countries outside the United States, providing preferential treatment to manufacturers of generic pharmaceutical products, imposing additional and possibly conflicting reporting requirements on prescription pharmaceutical companies, reducing the level at which pharmaceutical companies are reimbursed for sales of their products, and requiring significant monitoring initiatives by manufacturers in an attempt to reduce the misuse and abuse of controlled substances. For more information relating to recent regulatory proposals, please see the section titled "Recent

Developments, Branded Prescription Pharmaceuticals — Promoted Portfolio Developments, Avinza[®]” in Item 7 of our annual report on Form 10-K for the year ended December 31, 2008.

While we cannot predict when or whether any of these proposals will be adopted or the effect these proposals may have on our business, these and other similar proposals may exacerbate industry-wide pricing pressures and could have a material adverse effect on our business, financial condition, results of operations and cash flows.

An increase in product liability claims or product recalls 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 is alleged to have resulted in adverse effects. These risks exist for products in clinical development and with respect to products that have received 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 covering all of our significant products, but 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. With respect to any product liability claims that are not covered by insurance, we could be responsible for any monetary damages awarded by any court or any voluntary monetary settlements. Significant judgments against us for product liability for which we have no insurance could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Product recalls or product field alerts 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, including failure of our products to maintain their stability through their expiration dates. Any recall or product field alert has the potential of damaging the reputation of the product or our reputation. To date, these recalls have not been significant and have not had a material adverse effect on our business, financial condition, results of operations or cash flows. However, we cannot assure you that the number and significance of recalls will not increase in the future. Any significant recalls could materially affect our sales and the prescription trends for the products and damage the reputation of the products or our reputation. In these cases, our business, financial condition, results of operations and cash flows could be materially adversely affected.

If we fail to comply with our reporting and payment obligations under the Medicaid rebate program or other governmental pricing programs, we could be required to reimburse government programs for underpayments and could be required to pay penalties, sanctions and fines which could have a material adverse effect on our business.

Medicaid reporting and payment obligations are highly complex and in certain respects ambiguous. If we fail to comply with these obligations, we could be subject to additional reimbursements, penalties, sanctions and fines which could have a material adverse effect on our business. Our processes for estimating amounts due under Medicaid and other governmental pricing programs involve subjective decisions, and, as a result, these calculations will remain subject to the risk of errors.

The insolvency of any of our principal customers, who are wholesale pharmaceutical distributors, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

As with most other pharmaceutical companies, the primary customers for our branded prescription pharmaceutical products are wholesale pharmaceutical distributors. The wholesale distributor network for pharmaceutical products has in recent years been subject to increasing consolidation, which has increased our, and other industry participants', customer concentration. Accordingly, three key customers accounted for approximately 72% of our gross sales from branded prescription pharmaceutical products and a significant portion of our accounts receivable for the fiscal year ended December 31, 2008. The insolvency of any of our principal customers 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 branded prescription pharmaceutical products depends, in part, on the availability of adequate reimbursement from third-party health care payors, such as the government, private health insurers and managed care organizations. Third-party payors are increasingly challenging whether to reimburse certain pharmaceutical products and medical services. For example, many managed health care organizations limit reimbursement of pharmaceutical products. These limits may take the form of formularies with differential co-pay tiers. The resulting competition among pharmaceutical companies to maximize their product reimbursement has generally reduced growth in average selling prices across the industry. We cannot assure you that our products will be appropriately reimbursed or included on the formulary lists of managed care organizations or any or all Medicare Part D plans, or that downward pricing pressures in the industry generally will not negatively impact our operations.

We establish accruals for the estimated amounts of rebates we will pay to managed care and government organizations each quarter. Any increased usage of our products through Medicaid, Medicare, or managed care programs will increase the amount of rebates that we owe. We cannot assure you that our products will be included on the formulary lists of managed care or Medicare organizations or that adverse reimbursement issues will not result in materially lower revenues.

If we fail to comply with the safe harbors provided under various federal and state laws, our business could be adversely affected.

We are subject to various federal and state laws pertaining to health care “fraud and abuse,” including anti-kickback laws and false claims laws. Anti-kickback laws make it illegal for a prescription drug manufacturer to solicit, offer, receive, or pay any remuneration in exchange for, or to include, the referral of business, including the purchase or prescription of a particular drug. The federal government has published regulations that identify “safe harbors” or exemptions for certain payment arrangements that do not violate the anti-kickback statutes. We seek to comply with these safe harbors. Due to the breadth of the statutory provisions and the absence of guidance in the form of regulations or court decisions addressing some of our practices, it is possible that our practices might be challenged under anti-kickback or similar laws. False claims laws prohibit anyone from knowingly (in the civil context), or knowingly and willfully (in the criminal context), presenting, or causing to be presented for payment to third-party payors (including Medicaid and Medicare) claims for reimbursed drugs or services that are false or fraudulent, claims for items or services not provided as claimed, or claims for medically unnecessary items or services.

Violations of fraud and abuse laws may be punishable by civil and/or criminal sanctions, including fines and civil monetary penalties, as well as the possibility of exclusion from federal health care programs, including Medicaid and Medicare. Any such violations could have a material adverse effect on our financial results.

In the future, the publication of negative results of studies or clinical trials may adversely affect the sales of our products or the values of the intangible assets associated with them.

From time to time, studies or clinical trials on various aspects of pharmaceutical products are conducted by academics or others, including government agencies, the results of which, when published, may have dramatic effects on the markets for the pharmaceutical products that are the subject of the study, or those of related or similar products. The publication of negative results of studies or clinical trials related to our products or the therapeutic areas in which our products compete could adversely affect our sales, the prescription trends for our products and the reputation of our products. In the event of the publication of negative results of studies or clinical trials related to our branded prescription pharmaceutical products or the therapeutic areas in which our products compete, sales of these products may be materially adversely affected. Additionally, potential write-offs of the intangible assets associated with the affected products could materially adversely affect our results of operations.