

KING PHARMACEUTICALS INC

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**Subject Company: King Pharmaceuticals, Inc.  
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This filing relates to a planned acquisition (the Acquisition ) by Mylan Laboratories Inc. ( Mylan ) of King Pharmaceuticals, Inc. ( King ), pursuant to the terms of an Agreement and Plan of Merger, dated as of July 23, 2004 (the Merger Agreement ), by and among Mylan, Summit Merger Corporation (a wholly-owned subsidiary of Mylan) and King. The Merger Agreement is on file with the U.S. Securities and Exchange Commission (the SEC ) as an exhibit to the Current Report on Form 8-K, filed by Mylan on July 26, 2004 and is incorporated by reference into this filing.

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**Mylan Acquisition of King Pharmaceuticals July 26, 2004 Conference Call Transcript**

**MYLAN LABORATORIES, INC.  
Moderator: Heather Bresch  
07-26-04/8:00 a.m. CT**

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**Moderator: Heather Bresch  
July 26, 2004  
8:00 a.m. CT**

Operator: Good day, everyone. Welcome to this Mylan Laboratories Acquisition of King Conference Call. This call is being recorded. At this time, I d like to turn the call over to Ms. Heather Bresch. Please go ahead, ma am.

Heather Bresch: Good morning. My name is Heather Bresch, and I am Vice-President of Public and Government Relations at Mylan Laboratories. Welcome to this morning s conference call and live webcast to discuss Mylan Laboratories acquisition of King Pharmaceuticals. For those listening to the rebroadcast or web cast, this call is taking place at 9 a.m. Eastern Standard Time on July 26, 2004.

With me are Robert J. Coury, Vice Chairman and Chief Executive Officer of Mylan; Brian Markison, Chief Executive Officer of King. In addition, we are here with Ed Borkowski, the CFO of Mylan; Louis DeBone, Mylan s President and COO; John O Donnell, Mylan s Chief Scientific Officer; Margaret McKenna, Mylan s Chief Business Development Officer; Mike Marquard, President of Mylan Bertek; and Gary Sphar, Mylan s Vice President and Corporate Controller. We also have with us James Green, King s Executive Vice President of Corporate Affairs.

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I would like to begin by reminding you that this presentation will include statements that constitute forward-looking statements, including, with regard to the expected future business and financial performance of Mylan, resulting from and following the acquisition, and the impact of the acquisition, on employees and shareholders. These statements are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995.

Because such statements inherently involve risks and uncertainties, actual future results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, factors relating to satisfaction of the conditions to the acquisition, including requisite shareholder and regulatory approvals, challenges and costs relating to integration of the two businesses, the inability to achieve the anticipated synergies, the potential costs and product introduction delays that may result from use of legal, regulatory and legislative strategies by Mylan's or King's competitors, uncertainties regarding patent, intellectual and other proprietary property protection, exposure to lawsuits and contingencies associated with both Mylan and King's businesses, and the other risks detailed in the periodic filings filed by Mylan and by King with the Securities and Exchange Commission. Neither Mylan, nor King, undertakes any obligation to update these statements for revisions or changes after the date of this release.

Now I would like to turn the call over to our CEO, Robert J. Coury.

Robert Coury: Thank you, Heather. Welcome, ladies and gentlemen. Thank you for joining us on the live web cast and conference call to discuss what we believe will be the powerful combination of Mylan Laboratories and King Pharmaceuticals.

Today, we announced that we signed a definitive agreement with King, under which Mylan will acquire King in a stock-for-stock transaction at a ratio of 0.9 Mylan shares for each King share. Based on Mylan's closing stock price on Friday, this is equal to \$16.659 per share, or a total value of \$4 billion. This offer price represents a 61% premium to King's closing price on July 23, 2004. Mylan is paying approximately 14.1 times last 12 months net income and 2.8 times last 12 months revenue ending March 31, 2004.

As you already know, recently, both Mylan and King independently suspended their financial guidance. As a result, we will not be discussing the financial impact of the acquisition on a prospective basis. However, based on Mylan and King's earnings for the trailing 12 months ended March 31, 2004, this acquisition would've been approximately 15% accretive on a cash EPS basis.

Before I continue, let me introduce Brian Markison, President and CEO of King, to say a few words.

Brian Markison: Thank you, Robert. I would like to add that we at King are extremely excited about this combination. This is a transformational event for both of our companies, one that creates a new leader in the specialty pharmaceuticals industry, uniquely positioned to take advantage of opportunities in the marketplace. We believe this transaction will provide exceptional opportunities for both our shareholders and our employees.

Robert, back to you.

Robert Coury: Thank you, Brian. We, here at Mylan, and indeed some of you listening, know that expanding our branded business fulfills the long-term strategy set by our visionary Founder and



Chairman, Mylan Mike Puskar. His vision has been to create a pharmaceutical leader balance between a dynamic generics business and a strong branded portfolio, all aimed at delivering fairly valued pharmaceutical products to the consumer while optimizing shareholder value. This morning, we will walk you through the details of the transaction and give you a sense of the strategic rationale of the Mylan and King combination and why this is such a powerful combination, and afterwards, we will look forward to answering your questions.

As many of you know, King is a specialty pharmaceutical company, with nearly \$1.5 billion in revenues. The King Team has executed a successful strategy of acquiring both products and companies, creating a diversified branded portfolio featuring four products, each with annual sales exceeding \$100 million and numerous other products which contribute significantly to the revenue base. With Altace®, the leading branded ACE inhibitor and new prescription volume, King has a strategic and a highly differentiated focus in the cardiovascular market. In addition, the 1,200-person sales force and marketing expertise drive the strong performance of their brands. Mylan looks forward to leveraging King's sales force for the expected launch of Nebivolol, which we believe is a unique beta-blocker for the treatment of hypertension.

In terms of product areas, King has a diversified therapeutic presence. It is worth further highlighting Altace®, which is co-promoted by Wyeth. Altace® had sales of \$446 million over the last 12 months and is the leading branded ACE inhibitor in terms of new prescriptions. We are particularly excited about King's expertise in this area as we contemplate the launch of nebivolol. Our NDA for nebivolol was just accepted for filing by the FDA.

Let me highlight now the areas of the acquisition that we are going to discuss in more detail. First, we are creating a company with the complimentary portfolios that will have the ability to leverage opportunities in both the generics and branded arena. We believe that no other company in the specialty pharmaceuticals sector represents a better balance of these two businesses.

We believe that this combination will generate more consistent growth and revenue and earnings. This transaction will further strengthen Mylan's financial profile through the combined companies' very strong cash flows and will allow us to further grow our combined Company. Finally, we look at the combined Company as providing a robust platform, which to launch the next stage of our long-term growth plan.

This transaction will create a company that will be at the top of our industry in terms of revenue, sales force size and operating cash flow. No matter what metric you use, the combined company becomes one of the largest in the sector, with enhanced financial strength and the critical mass necessary to take full advantage of future opportunities. Our combined sales and marketing engine will further drive the launch of exciting new products, such as nebivolol. Together, with King, our product portfolio will generate annual revenues of almost \$3 billion. We expect generics will continue to be an integral part of the combined companies' growth and focus. We will continue to grow and strengthen this platform.

At the same time, brand products typically provide more stability through longer product lifecycles. King gives us an attractive brand portfolio, that, when leveraged with Mylan's capabilities will diversify our revenue stream. We believe that this combination creates a greater growth potential and reduced risk for our shareholders through a better balance of our businesses. Our acquisition of King is driven by a compelling strategic rationale.

These are extremely complimentary businesses with very little overlap, and each contributes its own unique strengths, expertise and assets, which have the potential to be leveraged to deliver



additional growth and shareholder value. We believe that our leading intellectual property team will enhance King's efforts to protect its products and its intellectual property. However, we recognize that any combination of this magnitude does not come without its challenges and issues. Mylan is well positioned to deal with these challenges and issues effectively and efficiently. Mylan has built a very strong management team with the breadth and depth of experience to address these types of challenges while executing on its strategies. We expect the combination will further contribute to deepening this talent pull.

As many of you know, hypertension affects over 50 million Americans. We believe there's a real opportunity in having the number one branded ACE inhibitor in terms of new scripts and a leading beta-blocker. Altace® has been, and continues to be, an excellent product with continued strong script trends and is the foundation of King's outstanding cardiovascular franchise. Altace's exclusivity extends through 2009, assuming a six-month pediatric extension, if granted. Nebivolol, as you all know, is the cornerstone of Mylan's branded strategy. With Altace in the market now and nebivolol in the pipeline, we expect to have two key cardiovascular products and be able to extend the opportunities of this very important franchise.

While inventory destocking issues have had a temporary impact on King's reported sales, the product's position in the marketplace remains strong. We recently added Michael Marquard as President of our Brand Division. Mike comes from Wyeth, where he helped launch Altace. We believe his addition will help grow this product to new levels going forward. We believe nebivolol is a unique compound and has a very attractive profile compared to other hypertension products in the cardiovascular market. We also believe it will become a leader in its class. Nebivolol is patent protected until 2020 in the United States and is already marketed in over 45 countries, excluding the U.S. and Canada.

A key strategy of the combined company will be to leverage King's existing cardiovascular expertise and sales force as a powerful platform to bring nebivolol to the market once approved. As stated earlier, generics is expected to be a core component and integral part of our company's future growth. Mylan has an exceptionally strong science platform, with particular expertise and product lifecycle management and formulation. The consumer demand for affordable pharmaceutical products continues to grow and Mylan is dedicated to providing this access.

We are a leading generics manufacturer and we will continue to expand the depth of our pipeline, driven by our intellectual property and the ability to strategically identify additional opportunities. We have a number of potential first-to-file paragraph 4 opportunities, currently representing over \$9 billion in 2003 brand sales. We believe that the terms of this transaction result in fair value to both sets of shareholders. The transaction is structured to ensure that we will all benefit from the substantial growth opportunities this combination represents.

Again, we are paying approximately 2.8 times last 12 months revenue at 14.1 times last 12 months net income. Additionally, our high-quality balance sheet ensures that we can take advantage of the opportunities available to us going forward. Once again, we believe that the acquisition of King Pharmaceuticals is a significant step in achieving our long-term business strategy.

However, our immediate goal will be to integrate our companies and apply the best practices from both businesses. Specifically, we will apply Mylan's financial, regulatory, manufacturing and compliance expertise to the combined businesses. We will also align our sales and marketing capabilities to leverage King's expertise in these disciplines. This will allow us to capitalize on future opportunities, such as the expected launch of nebivolol.





Looking ahead, we will apply Mylan's expertise formulation science to improve lifecycle management of our combined product portfolios, and we will use King's strength and the business development to support our strategic in-license as well as other acquisitions.

I would like to highlight the strength of our management team. We believe that this team is a key asset as we continue to grow and maximize shareholder value. Most notably, we recently bolstered our team by the appointments of Michael Marquard and Margaret McKenna, both of whom have significant experience in the pharmaceutical industry. Mike Marquard, who is President of Mylan Bertek, has over 30 years experience in the pharmaceutical industry, where he served in several senior management roles. At Wyeth, he helped launch many products, including, most importantly, Altace and Sonata®. Margaret McKenna, who is our Chief Business Development Officer, has over 25 years of experience in the investment banking pharmaceutical industry.

As we integrate our two organizations, we want to underscore how important the employees of both companies will be to the success of this transaction as we go forward. We will continue to build the bench strength of our combined operations.

And I would like to now turn the call over to our Chief Financial Officer, Ed Borkowski, who will take you through some additional aspects of this transaction.

Ed Borkowski: Thank you, Robert. Good morning, everybody.

I would like to discuss the transaction terms for what we believe is a very exciting and strategic acquisition for Mylan. This is a stock-for-stock exchange and will be a tax-free transaction. The implied combined market capitalization of Mylan and King would have been approximately \$9 billion as of July 23. The exchange ratio will be 0.9 Mylan common shares for each common share of King's stock. At closing, all King's shareholders will become Mylan's shareholders and be eligible for a quarterly dividend, which is currently \$0.03/ per share.

The resulting share ownership of Mylan will be approximately 56% for current Mylan shareholders and 44% for current King shareholders. While we expect to provide more specifics on synergies around closing, at this point, we expect pre-tax synergies in excess of \$100 million per year, the vast majority of which will come from eliminating the need to add to our existing sales force to support our expanding brand business, including the expected launch of nebigolol. Finally, we anticipate closing this acquisition by the end of calendar year 2004.

We would like to provide a sense of the financial strength of the combined Company. With approximately \$3 billion of revenues and more than \$1 billion of EBITDA, Mylan will have additional financial muscle to support its expanded branded business and other initiatives. The generic business will continue to generate its own growth opportunities. We will pursue incremental growth drivers to propel the branded business as well.

These will come from a mix of internal product lifecycle initiatives, launch of pipeline products and product acquisitions. With nearly \$500 million of net cash and an unlevered balance sheet at closing, the combined Company will be well capitalized and will emerge with what we believe is a strong investment grade profile. With only modest debt expected at closing, we have the financial flexibility and access to the financing markets to take advantage of additional opportunities.

Upon closing, we will be focused on cash EPS as a primary metric internally and in discussions with our shareholders. Cash EPS will exclude the amortization of any intangibles that we believe is the appropriate way to view the combined Company financials. Retrospectively, on a cash EPS basis, this transaction would have been \$0.19 per share, or 15% accretive on a pro forma trailing 12-month basis before any synergies. Our full pro forma financials will be available in the merger proxy. Of course, as required, we will continue to report GAAP EPS. I will now turn the call back over to Robert.

Robert Coury: Thanks, Ed. To close, I would like to say, again, how extremely excited we all are about the combination for our employees and shareholders and believe strongly in this strategic and financial value, and once again, we believe the combined Company will have the most well-balanced portfolio in our sector today and create a greater potential for our future growth. I would also like to reiterate that this transaction represents a complimentary combination of people, assets and infrastructure, and we have the vision and determination to make our combined Company an even greater success.

And finally, I want to thank the entire King and Mylan Team for their vision and realizing the great opportunities ahead for both of our shareholders and employees and bringing our companies together. We are very excited for our future. Thank you.

Heather Bresch: Operator, can we please open the line for questions?

Operator: Yes, thank you. Our question-and-answer session will be conducted electronically. If you do have a question today, please press the star key followed by the digit one on your touch-tone telephone. As a reminder, if you are on speakerphone, please make sure you turn off your mute function to allow your signal to reach our equipment. Additionally, please limit yourself to asking only two questions at a time.

Once again, it is star one if you have a question. We'll pause for just a moment.

And we'll hear first from Greg Gilbert with Merrill Lynch.

Greg Gilbert: Thanks. I have a couple. First, for Robert: How much diligence did you do, and how comfortable are you with, King's inventory issues and the outstanding SEC investigation, and then for Ed: Other than what you stated on a trailing 12-month basis, I know you're not providing guidance, but what financial metrics were used to analyze this transaction and were those metrics looked at with the effect of generic Levoxyl® and potentially earlier than expected competition to Skelaxin® and Altace, and just how you stress tested it?

Thank you.

Robert Coury: Greg, on the first one, let me tell you that on our due diligence, we did extensive due diligence, and I can't be more complimentary to the King's Organization and their advisors for working very, very closely with ours. We had a, you know, first class advisors on both sides to help us get into all of these issues rather deeply, and we are extremely comfortable with what we find in all the areas, including the inventory management. We believe that this is a very much a temporary issue. We focused on the script trends of this product, and we believe that once some of these issues are put behind King, the valuation of that security will demonstrate its true value.

Greg Gilbert: And then before Ed answers his, just a follow-up on that, Robert. How much of the rationale was driven by your desire to diversify away from generics a pure play on generics?

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Are you saying that the growth potential going forward will be somewhat less than what you had hoped when you originally joined the company based on authorized generics and other developments?

Robert Coury: That's a good question, Greg. But if you go back to the very, very beginning of when we transitioned our management team, basically, what we've done I mean it's been Mr. Puskar's vision all along to have a diversified pharmaceutical company, and what we did when I first came into office, when we brought our new management team in, we independently validated that strategy.

I didn't we just didn't accept it. We independently validated it, and when we did and we realized that this was absolutely the right direction for Mylan to go, then we turned around and looked at the assets that we had to work with, and when we turned around and looked at the generic machine that raised \$2,392,000 in February, I believe, '72, never went back for another penny from the public markets and grew to an over \$6 billion market cap, all with internal generated cash flow.

You know, there was nothing there that was broke that needed to be fixed. Our whole emphasis at that time was to focus on the brand strategy and what to do with the brand business, which we were not as pleased with when we got in, in terms of the, you know, the type of product portfolio we currently and what we define as truly building a brand franchise, not a brand business. A brand business, I see today, are, you know, people who have products and a sales force and just selling branded products. That, to us, is not a brand franchise.

So often you've heard me say that our transition and our management team was not really going to be a change, it was going to be a continuum. I've stated that all along, and as I've met each and every one of you, we told you where our focus and our cash flows and our balance sheet, you know, the direction that we were going to focus our attention. We had many different options to grow out that brand business.

We also, with our nebigolol compound and the tremendous opportunity that's in front of us there, we needed to get our brand platform in a position to maximize that opportunity, and as we look at the various options that we had, you know, we went down several paths, and it was you know, when Mr. Gregory announced that he was stepping down as CEO, the second that popped up on that Bloomberg screen is the second I picked up to call and called one of our bankers and said, "Don't you have a relationship with King," and he said, "Yes, we do."

I said, "I'd like to sit down across the table if we can get a meeting." He set it up, and I went in because we studied King's platform, and if you take a look at King's platform versus what we independently had in place that we need or we like to have at the time of the market formation of a nebigolol launch and a brand franchise, it was just a perfect, perfect fit. They had the type of sales force that we needed to put in place anyway. They happen to be in the cardiovascular arena and the same therapeutic category that we were focused in. They had other branded products. They had the critical mass.

Often, you know, I told people that I was not happy with the existing brand, that I wanted you to consider our current brand business that we're still trying to figure out what we want to be when we grow up, and you guys would've asked me, "Well, Robert, what's your definition of maturity?" And I told you that that definition is critical mass around a therapeutic category and also at least a 500-man sales force on the ground so that we can be commercially viable. Well,

our definition of a brand franchise again goes beyond just having products and a sales force to sell them. That's only a short-term play.

So given Mylan's excellent science platform and Mylan's prior accomplishments in the NDAs that it has filed and gotten approved in the past. We thought, when we put these two organizations together and take a look at King's business development muscle, we knew that there is such a compliment between our two organizations, their sales force, their product portfolio, our lifecycle management ability with our science and the combined cash flows came to us with the answer today, and nebivolol is the answer tomorrow. Together, we have natural continuity with a balance sheet with no debt, 600 million-plus in cash flows to fuel the future of the business so we're never faced with the question of what's next before we have the answer.

Ed Borkowski: And Greg, as we modeled King, we did our own models, which I believe were relatively conservatively compiled. We obviously anticipated a levothyroxine, or Levoxyl® generic, in our models. I think if you look at where they are, we are very—we are very comfortable in terms of King and its ongoing ability to generate EBITDA in the, you know, \$500 million range, and those were some of the metrics that we looked at going forward in addition to what we thought we could add.

Operator: And we'll move now to Cole Lannam with Putnam Investments.

Cole Lannam: Hi. Thanks. Just a couple of details on the—on the transaction. First of all, is there a collar on the deal?

Robert J. Coury: No.

Cole Lannam: And can you detail what kind of break up walk away agreements that are in place?

Ed Borkowski: There is a natural material efforts change that you would expect in this agreement, nothing unusual, and there's an \$85 million breakup fee.

Cole Lannam: Thank you.

Operator: Our next question comes from Rich Silver with Lehman Brothers.

Rich Silver: Could you discuss some of the synergies, both top line and bottom line, that you're expecting, and just to follow-up on the questions of assumptions that you're making for additional competition on Altace and Skelaxin, maybe you can give us a sense of what assumptions and the timeframe you're using for those products?

Robert J. Coury: Let me take the synergy one. Rich, as you know, our belief, in looking at any transaction, at Mylan we don't believe doing a transaction for synergy values alone is appropriate—the appropriate type of transaction that a company ought to—ought to look at. If we can't grow the top lines, we don't think that that would be a good transaction. At this time, until we get together, Brian and I, and put together the integration team that would put forth an integration plan at the time we did the closing. I prefer not to discuss synergies, but I would remind you that this is a, again, a complimentary transaction.

There's very little overlap here, and again, I would expect to use the resources that we already have in place to fuel our growth. Do we expect to get some synergies? Yes, obviously. The most

important synergy that I think should be noted is the existing sales force that is already on the

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ground and basically paid for by the existing King product portfolio and their revenue and net income base. Mylan no longer has to put that type of a sales force in play, and we believe that the majority I believe that Eddy stated that we expect that that would be in excess of \$100 million in synergy value, most if it, again towards the sales force.

Rich Silver: And does the does the transaction change the plan to still do a road show in the fall to focus and provide more detail on neбиволol?

Robert J. Coury: Absolutely not, Rich. I think the street has been waiting to hear it. I am really excited to get to the investor base and talk about the whole strategy around neбиволol, the compound itself, why we're so excited, our plans of our specific plans of launch, and we think we think the timing is actually good. We do not expect to be held up of a closing of this transaction because, again, there's very little overlap. We don't believe, at this time, from everything that we know, that there will be any regulatory agency to abnormally hold us up, you know, in terms of time frame.

We think and expect that this can happen by the end of this year, and what I will tell you is that I would be very interested. Our road show probably now, at the end of the year, either late, late fall yes, it should we still should be able to get into the fall, late fall because we expect the transaction to close by the end of this year, and I'd like to have that done so that we can incorporate in our plans now, you know, the combination of our company around the launch of neбиволol.

Rich Silver: OK, sorry, the question about assumptions you're using for additional competition on Altace and Skelaxin.

Robert J. Coury: I mean, you know, Brian, if you want to if you want to comment on that. I mean I don't really see Altace I think Altace stands by itself, Rich, from what we see, and quite frankly we see a real opportunity to potentially increase those script trends in time. We have some ideas that we've already discussed on how we might be able to do that, and that's another valuation metrics that we're pretty excited about, and as far as Skelaxin's concerned, as you know, they're in discussions with the FDA, and we don't believe that at this time, and I think, Brian, I think you were at the very earliest you were looking at the turn of the year if there were going to be any competition.

Brian Markison: Well, we certainly ((inaudible)), and we would expect that to continue ((inaudible)). Obviously, with the ((inaudible)).

Rich Silver: I'm sorry, you've got to speak closer to the speakerphone. You're breaking up.

Brian Markison: Obviously, in terms of time, as we cannot with absolute certainty tell you when we're going to expect generic competition. So we are keeping Skelaxin as an exclusive business model, but, you know, separately we'll be able to talk about how you should look at the risks around that.

Rich Silver: OK. Thank you.

Operator: We'll now hear from Al Rauch with AG Edwards.

Al Rauch: Thank you. Just a couple of questions. In terms of the Wyeth co-promotion with Altace, will that be impacted by this acquisition and does Wyeth have any options?

Robert J. Coury: The co-promotion will not be impacted whatsoever, and you know, they remain committed to Altace as a brand, as we do, and we just expect to go on with ((inaudible)) business.

Al Rauch: And could you remind of us what the PDUFA date for nebivolol is?

Robert J. Coury: February of '05.

Al Rauch: Thank you.

Operator: And we'll hear now from Tim Chiang with Bleichroeder.

Tim Chang: Hi, Robert. I had two questions. One is, you know, could you could you walk us through your thoughts in terms of building a sales force instead of and buying King. I mean how much more difficult would it have been to have built your own 1,200-person sales force in anticipation of a launch of nebivolol?

Robert Coury: I think the beauty about this marriage is exactly right there, Tim, in terms of building the sales force, if you can just look at a graph, your uptake would be a little slow, and then it would ramp up quick, where, having King, there is no slow uptake. We are on the ground running because I will not have to take that EPS dilution, bring it on that sales force and building it and putting it in place for that launch.

That's what I mean by they are the answer today-not just in sales force, but having an experienced sales force who's already demonstrated success in the market place with the product in the exact therapeutic category that we intend on marketing nebivolol. So it's a win-win. This is not a situation, (Tim), where one plus one equals two. This is a clear situation where one plus one equals three and more.

Tim Chiang: Robert, I just had one follow-up question, too, is you guys are in an interesting position. I mean you're going to be selling a generic version of Levoxyl while you're also selling a branded version. I mean how is that going to impact your generic launch?

Robert J. Coury: Well, you know, I don't think really anything changes right now, Tim, and I'm not until we don't believe that there's even going to be an issue around between our Levoxyl and King's our generic and King's Levoxyl, but from now, from announcing this deal to close, and we will be dealing with all the regulatory and other issues surrounded around that area. We're very confident from the work we've done upfront, that again we believe that's even going to be complementary, not an overlap.

Tim Chiang: OK. Thanks, Robert.

Robert Coury: OK.

Operator: And we'll hear now from Ian Sanderson with SG Cowen.

Ian Sanderson: Good morning, and thanks for taking the question.

On the nebivolol versus Altace, you've got, you know, two very detailed, sensitive drugs in primarily generic markets. How are you going to deal with the primary versus secondary detail issue, you know, of which drug gets the primary among your sales force.





Secondly, can you tell us I think this certainly signals that you've got high hopes for the potential of nebivolol. What type of differentiating clinical data do you have to support the nebivolol ramp?

Robert J. Coury: Ian, first on really two of your questions: One, I would not, even if I was in the position, would not want to discuss, for competitive purposes, how we're going to strategically align the sales force in terms at this time at this time, and how we're going to deal with both nebivolol and Altace, but part of our part of our non-deal road show, when we talk about nebivolol as a whole, those type of plans these type of discussions, as well as others, will be discussed at that time, and the second question, I believe, was information about nebivolol and any information we have now, again, we prefer to delay all discussions around nebivolol until we can deliver to you at one time the full-blown strategy of the compound and its rollout.

Ian Sanderson: OK, and if I could just ask a quick follow-up financial question: Have you are you willing to provide at this time any real rough guidance on good will amounts?

Robert J. Coury: I mean I think you can only imagine that an acquisition of this size that you're going to have, Ian, probably quite a bit in that area. We haven't specifically identified, although, that an acquisition of this size you would imagine is going to be fairly large. That is why, in addition to our GAAP EPS, as we have reported all along, we will be focusing on a cash EPS very, very standard to many other deals that are done at this magnitude because we think that's the real valuation metrics.

Ian Sanderson: OK, thank you.

Male: Yes.

Operator: Our next question comes from Marc Goodman with Morgan Stanley.

Marc Goodman: Yes, my question is for Brian Markison. I was just curious why now considering the stock is at an all-time low and that you guys have just started to put a plan in place to bring this thing back to life, and the inventory management agreement's obviously been signed. You're all set there. I mean I'm just curious why now?

Brian Markison: Well, Marc, I appreciate your question, and you're right; we're putting our plans in place. But I think what you have to do is take a step back and ask a more fundamental question: Are both companies better off combined than either one alone, and the answer, you know, from everything that you've heard already on the call is absolutely yes. So in looking at this, from the strengths of Mylan and the strengths of King, we just feel that the combination creates a very exciting future company for our shareholders and employees, Marc, if that answers your question.

Operator: Anything further, Mr. Goodman?

Marc Goodman: No, that's fine.

Operator: Thank you. And we'll hear now from Corey Davis with JP Morgan.

Corey Davis: Thanks. Would you ever consider trying to negotiate back rights on Altace from Wyeth, and if you would consider that, is that possible?

Robert J. Coury: Let me let me just we I mean I would be crazy to tell you that we if we had the opportunity to get that back to 100% I would do it in a heartbeat if it makes if it makes financial and logistical and strategic sense. We have not really gone down that path at this time, and I don't believe, Brian, if you can try and ((inaudible)) that there's any restrictions from that opportunity being made available.

Brian Markison: ((inaudible)) option. We are very happy with our ((inaudible)) Wyeth, and ((inaudible)) course of business, we'll evaluate ((inaudible)).

Corey Davis: OK, and there's a second question on a different note. I understand the concept of diversifying business models, but brand and generics are all more polar opposites in ((inaudible)), experience. There's a question whether or not that actually works. Does it make sense to run the two businesses more independently, or do you think you can be OK running them as kind of one business?

Robert Coury: I think to even attempt to compare a Watson business model with what we just what we've just done here is just apples and oranges. As a matter of fact, I want to thank Watson and others in the generic area because I was having the pleasure to watch the mistakes other generics have made in probing into the branded arena. This is a full-blown branded business. As you know, Mylan has always believed in intellectual property, always have respected intellectual property. This combination is a natural when you respect intellectual property.

In our generics, we have only gone after the type of patents that we felt were frivolous or patents that we thought were ill gotten, and we've only focused in that area. It's always been Mylan's history not just to take shots at intellectual property, because we have some ourselves and we firmly believe it. It is it is our we will run as you know, Mylan Laboratories is a holding company. Mylan Pharmaceuticals is our generic division, and it is run as a standalone separate company.

King will be merged into our existing branded business, and it will be run as a separately run company. These are two separate businesses that should be run and completely in a separate way because the type of drivers that drive each of these businesses are actually quite different, and where there's overlap in these businesses, we fully intend to take advantage, such as our science platform. The science platform is one of the most complimentary areas between generic and brand. But other than that, these two businesses will be run absolutely separately.

Corey Davis: Thanks, Robert.

Operator: Our next question comes from Elliot Wilbur of CIBC.

Elliot Wilbur: Good morning. Question I think for Ed, to begin with: Ed, previously you referred to a strong operating cash flow position, the combined company and Mylan's relatively unlevered balance sheet. Can you just walk us through some of the thought processes that may have led you to do an all equity transaction, considering the Mylan shares are, you know, roughly 20% off of their 10-year lows relative to accessing the debt capital markets?

Ed Borkowski: Sure. When we contemplated this from the beginning, one of the things that we thought about was that this was going to be an all stock transaction for Mylan, and in addition there were several other things. As you see, there were no the Mylan Board of Directors will remain unchanged, and those were two critical aspects of this deal. We believe maintaining a strong cash position too, so that we can further grow this platform was critical going forward. In addition,



making sure having appropriate cash reserves to do whatever it is we have to do to take care of any of the problems that we were inheriting from King. So we believe that a strong cash position was an appropriate thing for both shareholders going forward.

Elliot Wilbur: OK, then one second question for Robert-you may have mentioned this in your opening comments. I didn't catch it. At what point are we going to be receiving updated financial guidance for Mylan, either standalone or, you know, the combined entity?

Robert Coury: Thanks, Elliot. Let me tell you my philosophy on guidance as a whole. I think absolutely, unequivocally, in my opinion every company can be different, but I think that, you know, management giving annual guidance I think is extremely important. I do not like the idea I mean if management can't give the investing world an idea of what they see, then how is the investing public going to know anything? I we suspended guidance because I have to believe in what we put forth.

For the last 15 quarters, we put forth guidance and either met or exceeded each and every time, and you know, when the FDA decided to, you know, roll and the some of the things that they have done, which as you know we're still in a very intense battle on some of these decisions, at this time, when I am not comfortable and I can't feel passionate behind the numbers that we put forth, and you know, I'm just I'm not going to give it. I am I am looking forward to quickly resolving the issues, you know, around the generics side in terms of authorized generics, in terms of our fentanyl decision and other areas that we are working very closely.

We've approached the FTC. We've approached the Health and Human Services. We've talked with the FDA. We're awaiting Federal Court Decisions. All I want to know is what's the rules of engagement? I thought I understood what the rules of engagement are, but the current FDA rulings have completely turned some of our analysis and some of the statutory language that we interpret upside down on its head. So until we can get comfortable about the rules of engagement, I'm not comfortable to give guidance.

But I am confident that the cooperation that we are getting from the Health and Human Services that they are sensitive to the issues that we now face as we've had an opportunity to sit down and discuss with them some of the fallout of such decisions, one in particular is on the fentanyl. I didn't say I might, shall or may. I said we will come to the market in July, because the statutory language was absolutely clear to us about what it meant, and if the FDA was going to give us was going to withdraw our final, there's a formal procedure in the statute called Section 355 E.

And what your company needs to be given formal notice, they need to be called into a hearing, and they need to go through a four there's four tests you've got to go through, and if you violate one of them, that gives the FDA the statutory power to withdraw your final and make it a tentative, and those four things are safety, efficacy, any patent related issues or material misrepresentation on your application. We've done none of it. Obviously, we'd have never had a final approval if we didn't pass all of that.

But to me and I'm not going to say it's the FDA at whole, it's certain people that are in a position of power over there that have made this decision. The FDA is a very powerful organization. They do absolute justice for the American people and the consumer. This is not just the FDA. It's I believe it's the certain people in power at any given time, and what has happened is, you know, there's a lot of case law that states that the when there is ambiguity in the statutory language, the FDA has deference, and yes, there are a lot of used deference when there is ambiguity. But in this case, there's no

ambiguity.

The FDA decided not to even deal with the statutory requirement of a formal withdrawal because what they did was use deference about the judge's opinion, and there's equally, if not more, case law about the FDA's ability to use deference in interpreting a judge's opinion. The what the FDA said on the basis of (inaudible) our final approval withdrawal is they said, "In essence, a delayed effective approval, which is what the judge said, a delayed effective approval is, in essence, I didn't do anything. The judge did it. The judge a delayed in essence, a delayed effective approval automatically takes a final and turns it into a tentative. Therefore, I don't need to go any further and look at the statute. The judge did it. I didn't."

And that is exactly where our argument is, and we need to have answers around that because if you can only imagine that our the judge's opinion in our fentanyl case is right out of the statute, and that opinion is that any that any, not a that any affective approval cannot be any affective approval cannot there cannot be any affective approval until the family of patents expire. That is the exact same language in every lower court decision that a judge uses.

So I have already watched other cases that have come down that companies have lost in lower court rulings. I haven't seen the FDA use that in essence in any one of them yet, and so this arbitrary capricious type rulings we have to deal with. So I know what the rules of engagement are, and I am looking forward, I'm hoping real soon to reinstate guidance because we think that's the appropriate thing to do.

Operator: And we'll hear now from Michael Tong with Wachovia.

Michael Tong: Hi. Thanks for taking the question. Just a couple of quick questions: Ed, have you looked at on a GAAP basis what the what the trailing 12-month accretion dilution might be. Secondly, in the event that Altace or Skelaxin loses exclusivity position, would Mylan now consider coming to market with an authorized generic through King, and finally, what is Brian Markison's role going forward?

Robert J. Coury: Well, let me take the first one. On authorized generics, obviously you know I have no comment on that one. But I will I will wait to reserve my comment once I hear, you know, the where this whole issue washes out.

As far as GAAP EPS is concerned, I mean you can only imagine what the intangibles when you do the last trailing 12 months. If this deal were to consummate, the intangibles alone and the amortization would make this a dilutive transaction. I don't think that there's a transaction out there of this magnitude that when you take intangibles into consideration that would not appear to be dilutive, and as far as Brian Markison's role, you know, each of us still have to run independent companies. From now till closing, each one of us have to respect that our companies will be run on an independent basis.

Brian and I have a tremendous respect for one another in terms of our relationship. I do believe that we're going to find this same mutual respect throughout the King Organization, and Mylan, I see a tremendous amount of similarity in our cultures, and I'm looking forward to working with them, and I think at the appropriate time, you know, that the discussions around Brian Markison will be had, and we will come forth when we're ready to.

Operator: Anything further, Mr. Tong?

Michael Tong: No, thank you.



Operator: Thank you. And we'll hear now from David Maris with Banc of America.

David Maris: Hi. A couple of questions. The first, when a company does a transaction with stock when rates are so low and the stock is low, and I think this builds onto Elliot's question, people just assume then you think your stock is expensive, especially when you mention that it keeps your optionality to use cash in the future. But really, cash rates are so low it doesn't seem to make a lot of sense. So maybe you could just readdress that as why use why use stock versus cash when rates are so low.

Robert J. Coury: David?

David Maris: Yes.

Robert J. Coury: With all due respect, the only thing that doesn't make sense is that assumption, because there are a tremendous amount of options, obviously, that you know that we need to look at. Why would we use any cash at this particular time when, if you look at the business model, at funding a brand franchise the right way-not a branded company, a brand franchise-cash is king. Cash is precious, and quite frankly, you saw that we completed a 22.5 million share buyback. At any given time, if I wanted to buy back our shares, I have that opportunity, and I can reinstitute at the appropriate time.

We felt that the balance between an all-stock transaction and our cash that we have in place you know, Mylan is very conservative, David. Whether people like it or not, Mylan is conservative. They have a \$340 million convert that's out there that we fully expect has a call feature in the event of a change of control. We intend on dealing with that convert, leaving our net cash at about \$500 million, assuming this deal closes. In addition to that, with the R&D expenditure that we have, and the increased now R&D opportunity that we have, we want to focus all of our attention about not ever being in the position of not being able to answer what's next.

So I believe that the option of using cash is absolutely, positively still wide open for us at any time that we decide to institute a share buyback program, and as far as the King's shareholder is concerned, with the type of premium that we pay-and obviously that premium has taken into consideration a non-cash component-as you know, the King's shareholder, anyone can, you know, we have open markets, and if people need to have cash, they can use the open market to receive cash. But internally, for us to drive this business and long-term shareholder growth, cash is precious to us in driving a brand franchise.

David Maris: Well, it's just earlier you said that, you know, in the umpteen years you haven't raised money to fund growth, but when you issue stock for a company transaction, that's really the same thing. But it doesn't matter. It's, you know, semantics.

You mentioned EBITDA of King of around \$500 million. That would be much lower than current expectations. Was that just a number you threw out, or is that really what your expectations are?

In addition, Brian, what about a patch on generic Altace? Have you and Mylan talked about you know, we're aware of two generic companies working on this as a launch prior to the oral drug expiration. Do you consider that a threat, or is that something you guys haven't gone into as of yet?

- Brian Markison: Well, we haven't really had any supply dialogue with Mylan around a patch for Altace. The technology, you know, as you know we talked about is extremely difficult. I think should the transaction flow as fully expected to. At that point, we'll probably pick up that dialogue. But we have looked at other technology companies ((inaudible)) 2004.
- Robert J. Coury: I mean essentially, don't forget, you know, the current year with the destocking issue, I think, you know, obviously King, there's a, you know, anomaly in this year. We do view that going forward there will be a, you know, significant EBITDA generation from the King portfolio.
- David Maris: And then lastly, Robert, you guys reported numbers today. You missed consensus, and the generic line came in below where a street consensus revenue numbers for that line is. Is that you know, and I'll pose it: Investors are probably wondering if that's the real reason for this transaction. I mean how do you give them some comfort that, no, it really isn't about offsetting kind of a disappointing generic business?
- Robert Coury: Well, I mean the first thing David you need to make clear is that's not my consensus. The only consensus out there are the numbers that you guys come up with. When I put guidance out there, I stand by the guidance, and as far as anybody thinking that this decision was made overnight in terms of what it takes to run a public company, it's absolutely absurd.
- Go back and look at all my public comments, go back and look at our Founder and Chairman, you know, his vision about the direction that he was going. I'll tell you what I have done in the last two years: I understand what it takes to run a brand franchise and what it takes to drive one, and this nickel and diming and trying to do brick by brick is just not going to cut it. The combination of these two organizations we will demonstrate how it's done.
- Operator: And moving on to Jim Dawson with Buckingham Research.
- Jim Dawson: Hi. Can you hear me?
- Male: Yes.
- Jim Dawson: Just a couple of things. How does Mylan expect generic substitution for Levoxyl and Synthroid the trend. Also, just I wanted to get the, if I could, the generic volume in units for the June quarter versus a year ago, and excluding new products, which was in your release, generics were down 11%. What was the volume down, if you have that?
- Robert J. Coury: Actually, the volume of units were up, but Lou, you want to take his questions on Levoxyl?
- Louis DeBone: Yes, the market formation around Synthroid can ...
- Jim Dawson: I'm sorry. I can't hear you.
- Louis DeBone: The market formation around generic Synthroid and Levoxyl continues to occur. This is relatively early in the launch, and it is a competitive marketplace. There are several players. It's too early in the launch to give you anything too definitive about market share or how it's going to be substituted. I don't envision any particular issues with it ((inaudible)). As far as units go for the quarter, year-over-year the units were up approximately 13% to approximately

2.9 billion.

Jim Dawson: Up 13 percent, 2.9 billion, you said?

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Louis DeBone: That s correct.

Jim Dawson: OK. Thank you.

Operator: And we ll hear from Donald Ellis with Thomas Weisel Partners.

Donald Ellis: Thanks. Staying on the question. I m still not clear on your response for generic Levoxyl. Could you please repeat that?

Robert J. Coury: What would you like to know?

Donald Ellis: The question about how you re going to focus on it launch, any change in your plans now that hopefully you guys will own a branded Levoxyl.

Robert J. Coury: There is going to be zero change in our plans. Again, these two companies must run independently alongside one another until we head to a close. There will be no changes in our day-to-day activities other than the type of integration plan that we need to be discussing as we head to the close.

Donald Ellis: Actually, my question was referred to beyond December, when the deal is expected to close.

Robert J. Coury: At that time, depending upon the market formation and what we see in the marketplace, we will have a more specific answer for you, because it s inappropriate for me to predict what it would look like then.

Donald Ellis: Great. Thank you.

Operator: And next we ll hear from Jonathan Cohen of Banc of America Securities.

Jonathan Cohen: Hi. Good morning, gentlemen. This is really for anyone to answer. Basic question from the convertible bond side of things: Does this transaction clearly trigger a change of control pursuant to the November 2001 indenture on the KG 2.75 of 21?

Robert J. Coury: I believe the answer s yes.

Jonathan Cohen: Thank you.

Robert J. Coury: You re welcome.

Operator: And that does conclude our question-and-answer session. I ll turn the floor back to the presenters for any additional or closing remarks.

Heather Bresch: OK. Thank you. With that, we ll just close the session.

Robert J. Coury: And we would, again, on behalf of the Mylan management team and Brian ...

Brian Markison: On behalf of King.

Robert J. Coury: ... we d like to thank all of you, and we are extremely excited and would thank all of our employees on both Mylan and King, and we look forward to working together to make this transaction and the future prospects of this combination what we all believe it can be.

Thank you, all.

Operator: And that does conclude today s conference. Thank you for your participation. You may now disconnect.

END

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### **Forward Looking Statements:**

This communication contains statements that constitute forward-looking statements , including with regard to the expected future business and financial performance of Mylan resulting from and following the acquisition and the impact of the acquisition on employees and shareholders. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Because such statements inherently involve risks and uncertainties, actual future results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to: factors relating to satisfaction of the conditions to the acquisition, including requisite shareholder and regulatory approvals; challenges and costs relating to integration of the two businesses; the inability to achieve anticipated synergies; the effect of any changes in customer and supplier relationships and customer purchasing patterns; the impact and effects of legal or regulatory proceedings, actions or changes; general market perception of the transaction; the effects of vigorous competition on commercial acceptance of Mylan s and King s products and their pricing; the potential costs and product introduction delays that may result from use of legal, regulatory and legislative strategies by Mylan s or King s competitors; uncertainties regarding patent, intellectual and other proprietary property protections; exposure to lawsuits and contingencies associated with both Mylan and King s businesses; the ability to attract and retain key personnel; other uncertainties and matters beyond the control of management of both Mylan and King; and the other risks detailed in the periodic filings filed by Mylan and by King with the Securities and Exchange Commission. Neither Mylan nor King undertakes any obligation to update these statements for revisions or changes after the date of this release.

### **Additional Information About the Acquisition and Where to Find It:**

In connection with the proposed transaction, Mylan and King will file relevant materials with the SEC, including one or more registration statement(s) that contain a prospectus and a joint proxy statement. Investors and security holders of Mylan and King are urged to carefully read these documents (if and when they become available) and any other relevant documents filed with the SEC, as well as any amendments or supplements to those documents, because these documents will contain important information about Mylan, King, the transaction and related matters.

Investors and security holders may obtain these documents (and any other documents filed by Mylan or King with the SEC) free of charge at the SEC s website at [www.sec.gov](http://www.sec.gov). In addition, the documents filed with the SEC by Mylan may be obtained free of charge by directing such request to: Mylan Laboratories Inc., Attention: Investor Relations, 1500 Corporate Drive, Canonsburg, PA 15317, or from Mylan s website at [www.mylan.com](http://www.mylan.com). The documents filed with the SEC by King may be obtained

free of charge by directing such request to: King Pharmaceuticals Inc., Attn: Corporate Affairs, 501 Fifth Street, Bristol, TN 37620. Investors and security holders are urged to read the joint proxy statement/prospectus and the other relevant materials when they become available before making any voting or investment decision with respect to the proposed transaction.

Mylan, King and their respective executive officers and directors may be deemed to be participants in the solicitation of proxies from the shareholders of Mylan and King in favor of the acquisition. Information about the executive officers and directors of Mylan and their ownership of Mylan common stock is set forth in the proxy statement for Mylan's 2004 Annual Meeting of Shareholders, which was filed with the SEC on June 28, 2004, and in press releases and Forms 3 and 4 for executive officers who have since joined Mylan. Information about the executive officers and directors of King and their ownership of King common stock is set forth in the proxy statement for King's 2003 Annual Meeting of Shareholders, which was filed with the SEC on September 19, 2003, and in press releases, Forms 3 and 4 and Current Reports on Form 8-K for directors and executive officers who have since joined, or departed from, King. Investors and security holders may obtain more detailed information regarding the direct and indirect interests of Mylan, King and their respective executive officers and directors in the acquisition by reading the joint proxy statement/prospectus regarding the acquisition when it becomes available.

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IDTH="1%"> Marine terminal average storage capacity utilized per month (million barrels) 15.7 16.2 15.2 15.7 15.6 Marine terminal throughput (million barrels)(f) 11.5 20.5 22.2 10.4 11.2 Inland terminal throughput (million barrels) 56.7 57.3 61.2 28.3 46.6 Ammonia pipeline system: Volume shipped (thousand tons) 763 712 614 236 381

- (a) Represents equity earnings related to our 50% ownership interest in Osage Pipe Line Company, LLC.
- (b) Prior to our initial public offering on February 9, 2001, our petroleum products terminals and ammonia pipeline system operations were subject to income taxes. Prior to our acquisition of Magellan Pipeline Company, which primarily comprises our existing petroleum products pipeline system, on April 11, 2002, Magellan Pipeline Company was also subject to income taxes. Because we are a partnership, the petroleum products terminals and ammonia pipeline system were no longer subject to income taxes after our initial public offering, and Magellan Pipeline Company was no longer subject to income taxes following our acquisition of it.
- (c) At the closing of our acquisition of Magellan Pipeline Company, its affiliate note payable was contributed to us as a capital contribution by an affiliate of The Williams Companies, Inc., or Williams.
- (d) Represents cash distributions declared associated with each respective calendar year. Cash distributions were declared and paid within 45 days following the close of each quarter. Cash distributions declared for 2001 include a prorated distribution for the first quarter, which included the period from February 10, 2001 through March 31, 2001.
- (e) Includes \$5.9 million and \$3.6 million of reimbursable general and administrative expenses and \$10.8 million and \$0.8 million of transition costs for the year ended December 31, 2003 and the six months ended June 30, 2004, respectively.
- (f) For the year ended December 31, 2001, represents a full year of activity for the New Haven facility (9.3 million barrels) and two months of activity for the Gibson facility (2.2 million barrels), which was acquired in October 2001.

## RISK FACTORS

*An investment in our common units involves risk. You should carefully read the risk factors set forth below, the risk factors included under the caption "Risk Factors" beginning on page 2 of each of the accompanying prospectuses, and those risks discussed in our Annual Report on Form 10-K for the year ended December 31, 2003, which is incorporated by reference into this prospectus supplement and the accompanying prospectuses.*

***The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for federal income tax purposes.***

The common units that may be sold by Magellan Holdings upon any exercise of the underwriters' over-allotment option represent an approximate 1% interest in our capital and profits for tax purposes. In May 2004 and June 2004, Magellan Holdings sold 2,350,000 common units, which represented an approximate 9% interest in our capital and profits for tax purposes. In December 2003 and January 2004, Magellan Holdings also sold 4,975,000 common units, which represented an approximate 18% interest in our capital and profits for tax purposes. We will be considered to have been terminated for federal income tax purposes if the common units sold by Magellan Holdings, together with all common units sold within a 12-month period, which includes this offering, represent a sale or exchange of 50% or more of our capital and profits interests. Our termination for tax purposes would, among other things, result in a significant deferral of the depreciation deductions allowable in computing our taxable income for the year in which the termination occurs. For a discussion of the consequences of our termination for federal income tax purposes, please read "Material Tax Consequences Dispositions of Common Units Constructive Termination" in the accompanying prospectuses.

***Our general partner and its affiliates may have conflicts with our partnership.***

The directors and officers of our general partner and its affiliates have duties to manage our general partner in a manner that is beneficial to Magellan Holdings, its sole member. At the same time, our general partner has duties to manage us in a manner that is beneficial to us. Therefore, our general partner's duties to us may conflict with the duties of its officers and directors to Magellan Holdings.

Such conflicts may include, among others, the following:

decisions of our general partner regarding the amount and timing of cash expenditures, borrowings and issuances of additional limited partnership units or other securities can affect the amount of incentive distribution payments we make to our general partner;

under our partnership agreement, we reimburse our general partner for the costs of managing and operating us; and

under our partnership agreement, it is not a breach of our general partner's fiduciary duties for affiliates of our general partner to engage in activities that compete with us. For example, an affiliate of our general partner also owns the general partner of another publicly traded limited partnership that engages in businesses similar to ours and may compete with us in the future to acquire assets that we may also wish to acquire.

*Our pending acquisition of the Shell refined petroleum products pipeline systems may not be consummated.*

The purchase agreement for the Shell refined petroleum products pipeline systems contains conditions that, if not satisfied or waived, would result in the acquisition not occurring. These conditions include, among others:

the continued accuracy of the representations and warranties contained in the purchase agreement;

the performance by each party of its obligations under the purchase agreement;

the expiration or early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976; and

the absence of any decree, order, injunction or law that prohibits, restricts or substantially delays the transactions or makes the transactions unlawful.

If we do not consummate the acquisition from Shell, we will not realize any of the anticipated benefits of owning and operating the assets. In addition, we would likely not undertake anticipated expansion projects on our existing petroleum products pipeline system or our existing terminal network related to the acquisition. If we do not consummate the acquisition from Shell, we intend to use the net proceeds of this offering and our general partner's related capital contribution for general partnership purposes.

***The assets to be acquired from Shell are subject to ongoing remediation obligations and may incur substantial environmental costs and liabilities that are not covered by Shell's indemnification of us.***

Some of the assets to be acquired from Shell have been used for many years to distribute, store or transport petroleum products, and releases may have occurred from terminals or along pipeline rights-of-way that require remediation. In addition, past releases may have occurred but have not yet been discovered, which could require costly future remediation. As part of the acquisition, Shell has agreed to retain liabilities and expenses related to active environmental remediation projects, other than those relating to the consent decree discussed in the paragraph below. In addition, Shell has agreed to indemnify us for certain environmental liabilities arising from pre-closing conditions so long as we provide notice of those conditions within two years of the consummation of the acquisition. Shell's indemnification obligation is subject to a \$250,000 per-claim deductible and a \$30.0 million aggregate cap.

In 2003, Shell entered into a consent decree with the United States Environmental Protection Agency arising out of a June 1999 incident unrelated to the assets we expect to acquire from Shell. In order to resolve Shell's civil liability for the incident, Shell agreed to pay civil penalties of \$10.0 million and to comply with certain terms set out in the consent decree. These terms include requirements for testing and maintenance of a number of Shell's pipelines, including the Chase and Orion pipelines, the creation of a damage prevention program, submission to independent monitoring and various reporting requirements. The consent decree imposes penalties for non-compliance for a period of at least five years from the date of the consent decree. Under our purchase agreement with Shell, we have agreed, at our own expense, to complete any remediation work remaining under the consent decree with respect to the Chase and Orion pipelines. Shell has agreed to retain responsibility under the consent decree for the ongoing independent monitoring obligations related to the Chase pipeline.

If a significant accident or event occurred in the past for which indemnification is not available or if the costs of performing any remediation significantly exceed our expectations, it could adversely affect our financial position, results of operations and our ability to make distributions to our unitholders.



### USE OF PROCEEDS

We expect to receive net proceeds of approximately \$90.6 million from the sale of the 1,800,000 common units we are offering (based upon the last reported sales price of our common units on the New York Stock Exchange on August 9, 2004 of \$51.66 per common unit) and our general partner's related capital contribution, after deducting underwriting discounts and the estimated offering expenses payable by us.

We intend to use the net proceeds from this offering and our general partner's related capital contribution to pay a portion of the \$492.4 million cash purchase price for the assets we expect to acquire from Shell. Pending such use, we may invest the net proceeds and our general partner's related capital contribution in short-term, interest-bearing securities or accounts. The remainder of the purchase price for the Shell assets, as well as the related transaction fees and expenses, will be financed initially with cash on hand and short-term bank borrowings. An affiliate of Lehman Brothers Inc. has committed to provide up to \$400.0 million of such borrowings to us. We anticipate that the net proceeds from this offering will reduce the portion of the purchase price that we will finance with such borrowings. Following the closing of the acquisition, we intend to repay the majority of the bank borrowings with the proceeds from further issuances of common units and long-term debt securities.

If we do not consummate the acquisition from Shell, we intend to use the net proceeds from this offering and our general partner's related capital contribution for general partnership purposes.

We will not receive any proceeds from the common units to be sold by Magellan Holdings upon any exercise of the underwriters' over-allotment option.

**CAPITALIZATION**

The following table sets forth our capitalization as of June 30, 2004:

on a historical basis; and

as adjusted to give effect to the sale of common units offered by us, our general partner's related capital contribution and the application of the net proceeds therefrom in the manner described under "Use of Proceeds."

We expect the net proceeds from the common units offered by us and our general partner's related capital contribution to be approximately \$90.6 million (based on the last reported sales price of our common units on the New York Stock Exchange on August 9, 2004 of \$51.66 per common unit), after deducting the underwriting discount and estimated offering expenses payable by us. Please read "Use of Proceeds."

This table should be read together with our historical financial statements and the accompanying notes incorporated by reference into this prospectus supplement and the accompanying prospectuses.

	<b>As of June 30, 2004</b>	
	<b>Historical</b>	<b>As Adjusted</b>
	<b>(unaudited)</b>	
	<b>(\$ in thousands)</b>	
Cash and cash equivalents	\$ 51,951	\$ 142,585
Debt:		
Magellan Pipeline Company Series B senior notes(a)	\$ 302,202	\$ 302,202
Magellan Midstream Partners 6.45% senior notes due 2014(b)	249,488	249,488
Total debt	\$ 551,690	\$ 551,690
Total partners' capital	547,242	637,876
Total capitalization	\$ 1,098,932	\$ 1,189,566

(a) Reflects a \$0.2 million change in the fair value of these notes between May 25, 2004 and June 30, 2004 in connection with the fair value hedges associated with these notes.

(b) Reflects \$0.5 million of original issue discount.

**PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS**

As of August 10, 2004, there were 24,130,541 common units outstanding, held by approximately 25,000 holders, including common units held in street name and units held by Magellan Holdings. Our common units are traded on the New York Stock Exchange under the symbol "MMP."

As of August 10, 2004, 4,259,771 subordinated units were outstanding. These subordinated units are held by Magellan Holdings and are not publicly traded.

The following table sets forth, for the periods indicated, the high and low closing sales prices for our common units, as reported on the New York Stock Exchange Composite Transaction Tape, and quarterly declared cash distributions per common unit. The closing sales price of our common units on the New York Stock Exchange on August 9, 2004 was \$51.66 per common unit.

	Price Ranges		Cash Distributions Per Unit(a)
	High	Low	
<b>2004</b>			
Third Quarter (through August 9, 2004)	\$ 54.51	\$ 51.48	N/A(b)
Second Quarter	55.50	46.89	\$ 0.8700(c)
First Quarter	55.35	50.05	0.8500
<b>2003</b>			
Fourth Quarter	\$ 55.03	\$ 45.80	\$ 0.8300
Third Quarter	48.55	42.40	0.8100
Second Quarter	48.20	37.54	0.7800
First Quarter	37.19	33.30	0.7500
<b>2002</b>			
Fourth Quarter	\$ 34.70	\$ 29.50	\$ 0.7250
Third Quarter	36.40	25.20	0.7000
Second Quarter	42.35	30.75	0.6750
First Quarter	43.30	32.85	0.6125
<b>2001</b>			
Fourth Quarter	\$ 44.00	\$ 37.00	\$ 0.5900
Third Quarter	40.40	29.40	0.5775
Second Quarter	33.42	28.45	0.5625
First Quarter	31.00	24.00	0.2920

- (a) Cash distributions declared for each respective quarter. Cash distributions were declared and paid within 45 days following the close of each quarter. The cash distribution for the first quarter of 2001 was prorated for the period from February 10, 2001 through March 31, 2001.
- (b) We expect to declare and pay a cash distribution for the third quarter of 2004 within 45 days following the end of the quarter.
- (c) We will pay the cash distribution for the second quarter of 2004 on August 13, 2004 to unitholders of record at the close of business on August 3, 2004.

## OVERVIEW OF THE ACQUISITION

*Substantially all of the information presented below is based on information provided to us by Shell in connection with our pending acquisition of Shell's refined petroleum products pipeline systems.*

### Overview

On June 24, 2004, we announced our agreement to acquire more than 2,000 miles of refined petroleum products pipeline systems from Shell for \$492.4 million. In addition to the purchase price, we will pay approximately \$12.0 million for net working capital, which includes approximately \$26.0 million of inventory offset by \$14.0 million of escrow cash, and \$9.5 million for transaction costs, and will assume approximately \$12.5 million in existing liabilities. These assets are located in Colorado, Kansas, Oklahoma and Texas and primarily comprise the following four refined products pipeline systems, which include five active terminals and seven system storage facilities that have a combined storage capacity of approximately 6.4 million barrels:

*Orion refined products system:* an approximate 1,000-mile pipeline originating in Houston, Texas that delivers refined products to (i) a terminal in Odessa, Texas that we will acquire as part of this acquisition, (ii) a third-party terminal in El Paso, Texas, (iii) third-party facilities in central Texas and (iv) the mid-continent region of the United States through an interconnection with our existing petroleum products pipeline system at Duncan, Oklahoma;

*Hearne refined products system:* an approximate 145-mile pipeline originating in Hearne, Texas that delivers refined products to third-party terminals in Waco and Dallas, Texas and to our existing terminal in Dallas;

*Chase refined products system:* an approximate 700-mile pipeline originating in El Dorado, Kansas that delivers refined products to (i) two terminals that we will acquire as part of this acquisition and one third-party terminal in Kansas, (ii) a terminal near Denver, Colorado that we will acquire as part of this acquisition and (iii) the Denver International Airport; and

*Cimarron refined products system:* an approximate 175-mile pipeline with origin points in Glenpool and Cushing, Oklahoma that delivers refined products to the Chase pipeline connection at El Dorado, Kansas. Our existing petroleum products pipeline system serves as an interconnect between the Orion pipeline at Duncan, Oklahoma and the Cimarron pipeline at Cushing, Oklahoma.

Giving effect to anticipated expansion projects discussed below under "Strategic Rationale" and our marketing of these assets to third parties, including Shell, we expect annual operating profit from the acquired assets to be between \$40.0 and \$45.0 million by 2007 and to average approximately \$37.0 million for the period 2005 to 2007. We expect the related book depreciation to average approximately \$18.0 million per year for the period 2005 to 2007, and the maintenance capital for the acquired assets to be approximately \$2.0 million annually. For information about certain factors that could cause the actual operating results attributable to the acquired assets to materially differ from that which we expect, please read "Information Regarding Forward-Looking Statements" in this prospectus supplement and "Risk Factors" included in and incorporated by reference into this prospectus supplement and the accompanying prospectuses.

In connection with this acquisition, we have amended our partnership agreement to reduce the incentive cash distributions to be paid to our general partner by \$5.0 million and \$3.0 million for 2005 and 2006, respectively. In addition, the amended partnership agreement reduces the incentive cash distributions to be paid to our general partner for the remainder of 2004 based on the timing of the closing of this acquisition. These reductions will accelerate the accretion attributable to the acquisition and increase the cash available for distribution to our limited partners.

We currently expect to close the Shell acquisition by October 1, 2004, subject to customary due diligence, regulatory approvals and other customary closing conditions. We expect to finance the acquisition initially with cash on hand, the net proceeds from this offering and short-term bank borrowings. We plan to finance the acquisition permanently with further issuances of common units and long-term debt securities.

### **Strategic Rationale**

The acquisition of the Shell refined petroleum products pipeline systems will provide us with a direct connection to the U.S. Gulf Coast, which is the primary refining region of the United States and a major point of entry for foreign imports of refined petroleum products. The acquisition will also extend the reach of our existing petroleum products pipeline system into key markets in Colorado and western and northern Texas, including the growing metropolitan centers of Denver, Colorado, Dallas/Fort Worth, Texas and El Paso, Texas. According to the U.S. Census Bureau, the annual population growth in these areas has exceeded the national average over the past 10 years. The compound annual growth in population for the Dallas/Fort Worth, Denver and El Paso markets was approximately 2.6%, 2.6% and 1.4%, respectively, from 1990 to 2000 compared to the compound annual growth of approximately 1.2% for the nation on average. Based on this historical trend, we believe that demand for refined products in these markets will also increase more than the national average. Further, statistics from the Energy Information Administration indicate the demand for refined petroleum products in the market areas served by our existing petroleum products pipeline system is also expected to grow at an average compound annual rate of approximately 1.7% per year over the next 10 years. We believe that a substantial part of this growth in demand will be satisfied by shipments of refined products from the U.S. Gulf Coast region. The integration of the acquired assets into our existing petroleum products pipeline system will provide us with the ability to efficiently connect these growing markets with the U.S. Gulf Coast as a source of supply.

The Orion, Chase and Cimarron refined products systems already have connections to our existing petroleum products pipeline system. For example, the Orion refined products system currently serves markets in the U.S. mid-continent region through a connection with our existing petroleum products pipeline system, and the Chase refined products system can be supplied with refined products from the U.S. Gulf Coast region through our existing petroleum products pipeline system. In addition, we currently lease and operate a portion of the Cimarron pipeline. Given the strategic importance of these assets to us and their connections to our existing assets, we believe that opportunities exist for several projects to expand our existing petroleum products pipeline system, our existing terminal network and the Orion refined products system's point of origin at the East Houston storage facility, thereby enhancing our connectivity to U.S. Gulf Coast refineries.

### **Description of the Assets**

#### *Orion Refined Products System*

The Orion refined products system, or Orion, comprises three main segments which total approximately 1,000 miles:

the South segment, which extends from the East Houston storage facility located near Houston, Texas, to the Frost storage facility located approximately 50 miles south of Dallas, Texas;

the North segment, which extends from the Frost storage facility to Duncan, Oklahoma, where it interconnects with our existing petroleum products pipeline system; and

the West segment, which extends from the Frost storage facility to El Paso, Texas.

Orion's three segments are linked at the Frost storage facility and form a system capable of transporting approximately 100,000 barrels per day, or bpd. Orion also includes one active terminal,

located in Odessa, Texas, which has an aggregate storage capacity of approximately 709,000 barrels, and one idle terminal located in El Paso. The East Houston storage facility includes a number of crude oil storage tanks which will be leased to Shell under a long-term lease agreement.

Orion receives all of the refined products it transports from the East Houston storage facility, which receives the majority of its supply from Shell's Deer Park, Texas refinery. The remainder of the refined products received by the East Houston storage facility originate from Kinder Morgan Energy Partners L.P.'s terminals located in Galena Park and Pasadena, Texas.

Orion is a common-carrier pipeline, and its tariffs are regulated by FERC and the Texas Railroad Commission.

#### ***Hearne Refined Products System***

The Hearne refined products system, or Hearne, consists of an approximate 145-mile pipeline that originates at the Hearne, Texas storage facility located approximately 120 miles northwest of Houston, Texas and delivers refined products to third-party terminals in Waco and Dallas, Texas and to our existing terminal in Dallas. Additionally, refined products from Hearne can be delivered to the Hearne/Bryan/College Station area through a third-party truck loading rack at the Hearne storage facility and from facilities in Reagan, Texas to a railroad fueling facility in Temple, Texas through an interconnection with a pipeline owned by Koch Pipeline Company L.P. Hearne has a current throughput capacity of approximately 70,000 bpd and also includes an approximate 25-mile pipeline from Dallas to Fort Worth, Texas that has been idle since 2001.

Hearne receives a majority of its volumes through the Magtex pipeline from two major Gulf Coast refineries owned by ExxonMobil and Motiva. Hearne also has a newly constructed interconnection with Orion at Bee Creek, Texas.

Hearne is a common-carrier pipeline, and its tariffs are regulated by the Texas Railroad Commission.

#### ***Chase Refined Products System***

The Chase refined products system, or Chase, consists of an approximate 700-mile pipeline that originates at its El Dorado, Kansas storage facility and has two segments, the Chase Mainline and the Chase Loop. The Chase Mainline currently has capacity to transport approximately 60,000 bpd of refined products from El Dorado, Kansas to its Aurora terminal near Denver, Colorado. The Chase Mainline also includes a pipeline that extends from its Aurora terminal to Denver International Airport and is the only pipeline serving that airport. The Chase Loop has a current capacity of approximately 21,000 bpd that delivers refined products to two terminals in Great Bend and Scott City, Kansas, which have capacities of approximately 96,000 and 156,000 barrels, respectively. In addition, the Chase Loop delivers refined products to a third-party terminal located in Valley Center, Kansas, a northern suburb of Wichita.

Chase receives refined products from its El Dorado storage facility, which receives refined products primarily from Frontier Oil Corporation's approximate 110,000 bpd refinery located in El Dorado. The El Dorado storage facility also receives products from U.S. Gulf Coast refineries through an interconnection with our existing petroleum products pipeline system through the Cimarron pipeline described below.

The Chase Mainline is a common-carrier pipeline, and its tariffs are regulated by FERC, except for the segment serving the Denver International Airport, the tariffs for which are regulated by the Colorado Public Utility Commission. The Chase Loop is a common-carrier pipeline, and its tariffs are regulated by the Kansas Corporation Commission.

***Cimarron Refined Products System***

The Cimarron refined products system, or Cimarron, consists of an approximate 175-mile pipeline that originates at the Glenpool storage facility near Glenpool, Oklahoma and extends approximately 40 miles west to Cushing, Oklahoma. At Cushing, the pipeline extends north approximately 130 miles to the El Dorado storage facility, where it interconnects with Chase. Cimarron has current capacity to transport approximately 25,000 bpd of refined products. The approximate 620,000-barrel Glenpool storage facility is connected to an approximate 3.8 million-barrel storage facility on the Explorer pipeline and is also connected to the storage facility that we lease in Glenpool. Cimarron also includes the approximate 292,000-barrel Boyer storage facility which provides additional tankage for Cimarron and allows Cimarron to access the El Dorado storage facility more efficiently.

The section of Cimarron extending from Glenpool to Cushing is leased to a third party through January 31, 2005 and currently transports crude oil, while the remainder of the pipeline transports refined products and is currently leased to us through October 31, 2008.

***Other Assets***

In addition to the four refined products pipeline systems above, we also expect to acquire (i) an approximate 152,000-barrel terminal in Oklahoma City, Oklahoma located on our existing petroleum products pipeline system and (ii) a 5-mile pipeline that extends from an interconnection with the Magtex pipeline to Bush Intercontinental Airport in Houston, Texas, including four storage tanks connected to the pipeline with aggregate capacity of 226,000 barrels.

**No Historical Financial Information**

The Shell assets we expect to acquire have not been operated historically as a separate division or subsidiary. Shell operated these assets as part of its more extensive transportation and terminalling and crude oil and refined products operations. As a result, Shell did not maintain complete and separate financial statements for these assets as an independent business unit.

After we acquire the assets, we plan to integrate them into the operations of our existing petroleum products pipeline system utilizing our existing accounting, financial reporting and measurement and control systems. In order to facilitate this integration, we expect to enter into a transition services agreement with Shell. Under the transition services agreement, Shell will provide certain pipeline control services in connection with the operation of the assets for a limited period of time following the closing of the acquisition. We plan to employ field operations personnel to operate the assets, including some current Shell employees, and utilize our existing marketing and managerial employees or employ additional personnel to perform these functions. We also plan to arrange for and enter into transportation, terminalling and supply agreements with third parties, including Shell, for the refined petroleum products pipeline systems, terminals and system storage facilities we acquire. We intend to operate these assets to maximize revenues and cash available for distribution to our unitholders by charging applicable tariffs and fees for transportation and terminalling services.

**Terminalling and Transportation Agreements with Shell**

In connection with our acquisition of these refined petroleum products pipeline systems, we expect to enter into three-year terminalling and transportation agreements with Shell for a combined minimum revenue commitment averaging approximately \$28.5 million per year.

## MANAGEMENT

The following table sets forth information with respect to the executive officers and members of the board of directors of our general partner. Executive officers are elected by the board of directors of our general partner and serve until the earlier of their resignation or removal. The board of directors of our general partner has eight directors divided into three classes serving staggered three-year terms.

Name	Age	Position with General Partner
Don R. Wellendorf	51	Chairman of the Board, President and Chief Executive Officer
John D. Chandler	34	Vice President, Chief Financial Officer and Treasurer
Michael N. Mears	41	Vice President, Transportation
Richard A. Olson	46	Vice President, Pipeline Operations
Brett C. Riley	34	Vice President, Business Development
Lonny E. Townsend	47	Vice President and General Counsel
Jay A. Wiese	48	Vice President, Terminal Services and Development
Patrick C. Eilers	37	Director
Justin S. Huscher	50	Director
N. John Lancaster, Jr.	36	Director
Pierre F. Lapeyre, Jr.	42	Director
James R. Montague	57	Director
George A. O'Brien, Jr.	55	Director
Mark G. Papa	57	Director

Don R. Wellendorf has served as Chairman of the Board since June 17, 2003, and as a director and the President and Chief Executive Officer of our general partner since November 15, 2002. Mr. Wellendorf also served as President and Chief Executive Officer of our former general partner from May 13, 2002 until November 15, 2002 and served as a director of our former general partner from February 9, 2001 until November 15, 2002. He served as Treasurer and Chief Financial Officer of our former general partner from January 7, 2001 to July 24, 2002 and as Senior Vice President of our former general partner from January 7, 2001 until May 13, 2002. From 1998 to March 2003, he served as a Vice President of a subsidiary of Williams. Prior to Williams' merger with MAPCO Inc., he served in various management positions since joining MAPCO in 1979.

John D. Chandler has served as a Vice President since June 17, 2003 and as the Chief Financial Officer and Treasurer of our general partner since November 15, 2002 and served in that capacity for our former general partner from July 24, 2002 until November 15, 2002. He was Director of Financial Planning and Analysis for a subsidiary of Williams from September 2000 to July 2002. He also served as Director of Strategic Development for a subsidiary of Williams from 1999 to 2000 and served as Manager of Strategic Analysis from 1998 to 1999. Prior to Williams' merger with MAPCO Inc., he held various accounting and finance positions with MAPCO from 1992 to 1998.

Michael N. Mears has served as the Vice President, Transportation of our general partner since November 15, 2002 and served in that capacity for our former general partner from April 22, 2002 until November 15, 2002. He served as a Vice President of subsidiaries of Williams from 1996 to June 17, 2003. Mr. Mears also worked in various management positions with Magellan Pipeline Company, LLC since joining Williams in 1985.

Richard A. Olson has served as the Vice President, Pipeline Operations of our general partner since November 15, 2002 and served in that capacity for our former general partner from April 22, 2002 until November 15, 2002. He served as a Vice President of subsidiaries of Williams from 1996 to 2002. Mr. Olson also worked in various management positions with Magellan Pipeline Company, LLC since joining Williams in 1981.



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Brett C. Riley has served as the Vice President, Business Development of our general partner since June 17, 2003. Mr. Riley served as Director of Mergers & Acquisitions for a subsidiary of Williams from September 2000 until June 2003. He also served as Director of Financial Planning and Analysis for a subsidiary of Williams from 1998 to 2000. Mr. Riley also worked in various financial positions with MAPCO and Williams since 1992.

Lonny E. Townsend has served as Vice President and General Counsel of our general partner since June 17, 2003. He was Assistant General Counsel for Williams from February 2001 to June 17, 2003. He also served as Senior Counsel for Williams from September 1995 to February 2001.

Jay A. Wiese has served as the Vice President, Terminal Services and Development of our general partner since November 15, 2002 and served in that capacity for our former general partner from January 7, 2001 until November 15, 2002. He was Managing Director, Terminal Services and Commercial Development for a subsidiary of Williams from 2000 to January 2001. From 1995 to 2000, he served as Director, Terminal Services and Commercial Development for a subsidiary of Williams and held various operations, marketing and business development positions for Williams from 1982 to 1995.

Patrick C. Eilers has served as a director of our general partner since June 17, 2003. He has been employed by Madison Dearborn Partners, Inc. since 1999 where he serves as a Director. Prior to joining Madison Dearborn Partners, he served as a Director with Jordan Industries, Inc. from 1995 to 1997 and as an Associate with IAI Venture Capital, Inc. from 1990 to 1994 while playing professional football with the Chicago Bears, the Washington Redskins and the Minnesota Vikings from 1990 to 1995. Mr. Eilers received a Masters in Business Administration from the Northwestern J.L. Kellogg Graduate School of Management in 1999.

Justin S. Huscher has served as a director of our general partner since June 17, 2003. He is a founder of Madison Dearborn Partners, Inc. where he has served as a Managing Director since 1993. He currently serves as a member of the board of directors of Bay State Paper Company, Jefferson Smurfit Group plc and Packaging Corporation of America. Previously, he served as a director of Buckeye Technologies, Inc. and HomeSide, Inc. Prior to joining Madison Dearborn Partners, he was with First Chicago Venture Capital for seven years.

N. John Lancaster, Jr. has served as a director of our general partner since May 20, 2004. He is a Managing Director of Riverstone Holdings, LLC where his primary focus includes sourcing and executing investments in the energy industry. Prior to joining Riverstone in April 2000, he was a director with The Beacon Group, LLC, a strategic advisory and private equity investment firm. He attended Harvard Business School from January 1998 through May 1999. He also served previously in the energy investment banking groups of both Credit Suisse First Boston and Bankers Trust.

Pierre F. Lapeyre, Jr. has served as a director of our general partner since June 17, 2003. He is a founder of Riverstone Holdings, LLC where he has served as a Managing Director since May 2000. He serves as a member of the board of directors of Legend Natural Gas, L.P., InTank, Inc. and CDM Resource Management, Ltd. He is also a member of the board of directors of Seabulk International Inc., where he serves on the compensation committee. Prior to joining Riverstone Holdings, Mr. Lapeyre spent 14 years with Goldman, Sachs & Co. where he served as a Managing Director of the Global Energy and Power Group. During his investment banking career at Goldman, Sachs & Co., he focused on energy and power, particularly the midstream/infrastructure, oil service and technology sectors.

James R. Montague has served as a director of our general partner since November 21, 2003. From December 2001 to October 2002, Mr. Montague served as President of AEC Gulf of Mexico, Inc., a subsidiary of Alberta Energy Company, Ltd., which is involved in oil and gas exploration and production. From 1996 to June 2001, he served as President of two subsidiaries of International Paper Company, IP Petroleum Company, an oil and gas exploration and production

company, and GCO Minerals Company, a company that manages International Paper Company's mineral holdings. He is also a director of the general partner of Penn Virginia Resource Partners.

George A. O'Brien, Jr. has served as a director of our general partner since December 12, 2003. He is Senior Vice President of Forest Resources for International Paper Company and is responsible for its forestry and wood products businesses. His responsibilities during his 16-year tenure at International Paper have included corporate development, chief financial officer of its New Zealand subsidiary and operations management. Prior to joining International Paper in 1988, he was an investment banker in the energy divisions of Smith Barney and E.F. Hutton. Mr. O'Brien has also served in senior-level financial management positions, including vice president and treasurer of Transco Energy Company.

Mark G. Papa has served as a director of our general partner since July 21, 2003. He has served as Chairman of EOG Resources Inc., an independent exploration and production company, since August 1999, where he also has served as Chief Executive Officer, a director since September 1998 and as President since December 1996. He serves as a member of the board of directors of Oil States International, Inc. and Chairman of the U.S. Oil and Gas Association.

### SELLING UNITHOLDER

The following table sets forth information concerning the ownership of our common units by Magellan Holdings. As of August 10, 2004, there were 24,130,541 of our common units outstanding. The percentages indicated below represent Magellan Holdings' ownership of our common units.

Name and Address of Magellan Holdings	Common Units Owned Immediately After This Offering					
	Common Units Owned Immediately Prior to This Offering		Assuming Over-allotment Option is Not Exercised		Assuming Over-allotment Option is Exercised in Full	
	Common Units	Percent	Common Units	Percent	Common Units	Percent
Magellan Midstream Holdings, L.P. P. O. Box 22186 Tulsa, Oklahoma 74121-2186	3,005,541	12.5%	3,005,541	11.6%	2,735,541(a)	10.5%

(a) A total of 270,000 common units will be sold by Magellan Holdings if the underwriters exercise their over-allotment option in full.

After giving effect to this offering and assuming the over-allotment option is not exercised, Magellan Holdings will own all 4,259,771 of our subordinated units and 3,005,541 common units, representing a 23.6% limited partner interest in us (if the over-allotment option is exercised in full, Magellan Holdings will own all 4,259,771 of our subordinated units and 2,735,541 common units, representing a 22.7% limited partner interest in us). The number of subordinated units owned by Magellan Holdings will not be affected by this offering. For more information about our relationship with Magellan Holdings, please read our Annual Report on Form 10-K for the year ended December 31, 2003, which was filed with the SEC on March 10, 2004 and which is incorporated by reference into this prospectus supplement and the accompanying prospectuses. In addition, for a discussion of our ownership, please see "Summary Partnership Structure and Management."

## TAX CONSIDERATIONS

The tax consequences to you of an investment in our common units will depend in part on your own tax circumstances. For a discussion of the principal federal income tax considerations associated with our operations and the purchase, ownership and disposition of our common units, please read "Material Tax Consequences" in the accompanying prospectuses. You are urged to consult with your own tax advisor about the federal, state and local tax consequences peculiar to your circumstances.

We estimate that if you purchase common units in this offering and own them through the record date for the distribution for the fourth quarter of 2006, then you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be less than 20% of the cash distributed with respect to that period. These estimates are based upon the assumption that our available cash for distribution will approximate the amount required to distribute cash to the holders of our common units in an amount of at least the current quarterly distribution of \$0.87 per unit and other assumptions with respect to capital expenditures, cash flow and anticipated cash distributions. These estimates and assumptions are subject to, among other things, numerous business, economic, regulatory, competitive and political uncertainties beyond our control. Further, the estimates are based on current tax law and certain tax reporting positions that we have adopted with which the Internal Revenue Service could disagree. Accordingly, we cannot assure you that the estimates will be correct. The actual percentage of distributions that will constitute taxable income could be higher or lower, and any differences could be material and could materially affect the value of the common units. Please read "Material Tax Consequences" in the accompanying prospectuses.

Ownership of common units by tax-exempt entities, regulated investment companies and foreign investors raises issues unique to such persons. Please read "Material Tax Consequences Tax-Exempt Organizations and Other Investors" in the accompanying prospectuses.

Recently issued Treasury Regulations require taxpayers to report certain information on Internal Revenue Service Form 8886 if they participate in a "reportable transaction." You may be required to file this form with the Internal Revenue Service if we participate in a "reportable transaction." A transaction may be a reportable transaction based upon any of several factors. You are urged to consult with your own tax advisor concerning the application of any of these factors to your investment in our common units. Congress is considering legislative proposals that, if enacted, would impose significant penalties for failure to comply with these disclosure requirements. The Treasury Regulations also impose obligations on "material advisors" that organize, manage or sell interests in registered "tax shelters." As described in the accompanying prospectuses, we have registered as a tax shelter, and, thus, one of our material advisors will be required to maintain a list with specific information, including your name and tax identification number, and furnish this information to the Internal Revenue Service upon request. You are urged to consult with your own tax advisor concerning any possible disclosure obligation with respect to your investment, and you should be aware that we and our material advisors intend to comply with the list and disclosure requirements.

The top marginal United States federal income tax rate for individuals is currently 35%. In general, net capital gains of an individual are subject to a maximum 15% United States federal income tax rate if the asset disposed of was held for more than 12 months at the time of disposition.

In addition, because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity-level taxation through the implementation of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, our cash available for distribution would be reduced.

**UNDERWRITING**

Under the underwriting agreement, which we will file as an exhibit to our current report on Form 8-K relating to this common unit offering, each of the underwriters named below have severally agreed to purchase common units from us and, if the over-allotment option is exercised, Magellan Holdings. Each underwriter is obligated to purchase the respective number of common units indicated in the following table:

<b>Underwriters</b>	<b>Number of Common Units</b>
Lehman Brothers Inc.	
Citigroup Global Markets Inc.	
Goldman, Sachs & Co.	
UBS Securities LLC	
<b>Total</b>	<b>1,800,000</b>

The underwriting agreement provides that the underwriters are obligated to purchase, subject to certain conditions, all of the common units from us in the offering if any are purchased, other than those covered by the over-allotment option described below. The conditions contained in the underwriting agreement include requirements that:

the representations and warranties made by us and Magellan Holdings to the underwriters are true;

there has been no material adverse change in our condition or in the financial markets; and

we and Magellan Holdings deliver the customary closing documents to the underwriters.

**Over-Allotment Option**

Magellan Holdings has granted the underwriters a 30-day option to purchase, in whole or part, up to an aggregate of 270,000 additional common units at the public offering price less the underwriting discount and commissions. This option will be exercised to cover over-allotments, if any, made in connection with the common unit offering. To the extent that the option is exercised, each underwriter will be obligated, subject to certain conditions, to purchase a number of additional common units proportionate to the underwriter's percentage underwriting commitment in the offering as indicated in the preceding table and Magellan Holdings will be obligated, pursuant to the option, to sell these units to the underwriters. We will not receive any proceeds in connection with any exercise of the over-allotment option.

**Commission and Expenses**

We and Magellan Holdings have been advised by the underwriters that the underwriters propose to offer the common units directly to the public at the price to the public set forth on the cover page of this prospectus supplement and to selected dealers, who may include the underwriters, at the offering price less a selling concession not in excess of \$ per unit. The underwriters may allow, and the selected dealers may reallow, a discount from the concession not in excess of \$ per unit to other dealers. After the common unit offering, the underwriters may change the offering price and other selling terms.

The following table shows the underwriting discounts and commissions we and Magellan Holdings will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters' over-allotment option to purchase 270,000 additional common units from Magellan

Holdings. The underwriting fee is the difference between the public offering price and the amount the underwriters pay us and Magellan Holdings for the common units.

	<u>No Exercise</u>	<u>Full Exercise</u>
Paid by us per unit	\$	\$
Paid by Magellan Holdings per unit	\$	\$
Total	\$	\$

We estimate that the total expenses for this common unit offering, excluding underwriting discounts and commissions, will be approximately \$0.3 million. We have agreed to pay all of the expenses incurred in connection with the offering, other than Magellan Holdings' proportionate share of any underwriting discounts or commissions.

### Lock-up Agreements

We, Magellan Holdings and the directors and the executive officers of our general partner have agreed that we and they will not, subject to limited exceptions, directly or indirectly, sell, offer, pledge or otherwise dispose of any common units or any securities convertible into or exchangeable or exercisable for common units or enter into any derivative transaction with similar effect as a sale of common units for a period of 45 days after the date of this prospectus supplement without the prior written consent of Lehman Brothers Inc. and Citigroup Global Markets Inc. The restrictions described in this paragraph do not apply to (i) the sale of common units by us and Magellan Holdings to the underwriters, (ii) issuances of common units pursuant to any existing employee benefit plans or (iii) sales of our registered common units to one or more investors in a transaction other than an underwritten public offering, provided that such investors agree in writing to be subject to the same restrictions set forth above for the period between the date of any such issuance and the date 45 days after the date of this prospectus.

Lehman Brothers Inc. and Citigroup Global Markets Inc., in their discretion, may release the common units subject to lock-up agreements in whole or in part at any time with or without notice. When determining whether or not to release common units from lock-up agreements, Lehman Brothers Inc. and Citigroup Global Markets Inc. will consider, among other factors, the unitholders' reasons for requesting the release, the number of common units for which the release is being requested and market conditions at the time.

### Indemnification

We, our general partner, certain of our affiliates and Magellan Holdings have agreed to indemnify the underwriters against certain liabilities relating to the offering, including liabilities under the Securities Act of 1933, as amended, and liabilities arising from breaches of the representations and warranties contained in the underwriting agreement or to contribute to payments that may be required to be made in respect of these liabilities.

### Stabilization, Short Positions and Penalty Bids

In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions, and penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of the common units in accordance with Regulation M under the Securities Exchange Act of 1934.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Over-allotment transactions involve sales by the underwriters of the common units in excess of the number of common units the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of common units over-allotted by the underwriters is not greater than the number of common units they may purchase in the over-allotment option. In a naked short position, the number of common units involved is greater than the number of common units in the over-allotment option. The underwriters may close out any short position by either exercising their over-allotment option and/or purchasing the common units in the open market.

Syndicate covering transactions involve purchases of the common units in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of the common units to close out the short position, the underwriters will consider, among other things, the price of common units available for purchase in the open market as compared to the price at which they may purchase common units through the over-allotment option. If the underwriters sell more common units than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying common units in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the common units in the open market after pricing that could adversely affect investors who purchase in the offering.

Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common units originally sold by the syndicate member are purchased in a stabilizing or syndicate covering transaction to cover a syndicate short position.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common units or preventing or retarding a decline in the market price of the common units. As a result, the price of our common units may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

Neither we, Magellan Holdings, nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common units. In addition, neither we, Magellan Holdings, nor any of the underwriters make representation that the representatives will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

#### **Affiliations**

Some of the underwriters and their affiliates have performed investment banking, financial advisory and other commercial services for us and our affiliates and Magellan Holdings and its affiliates in the ordinary course of business from time to time for which they have received customary fees and expenses. The underwriters and their affiliates may, from time to time in the future, engage in transactions with and perform such services for us and our affiliates and Magellan Holdings and its affiliates in the ordinary course of business.

Affiliates of each of the underwriters are lenders under the revolving portion of our credit facility. An affiliate of Lehman Brothers Inc. has committed to provide up to \$400.0 million in short-term bank borrowings to us to fund a portion of the purchase price of the refined petroleum products pipeline systems we expect to purchase from Shell. We anticipate that the net proceeds from this offering will reduce the amount of short-term bank borrowings that will be provided.

The decision of the underwriters to participate in this offering was made independently of any of their respective affiliates that are lenders under our credit facility.

### **Electronic Distribution**

A prospectus in electronic format may be made available on the Internet sites or through other online services maintained by one or more of the underwriters and/or selling group members participating in this common unit offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter or selling group member, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of common units for sale to online brokerage account holders. Any such allocation for online distributions will be made by the representatives on the same basis as other allocations.

Other than the prospectus in electronic format, the information on any underwriter's or selling group member's website and any information contained in any other website maintained by any underwriter or selling group member is not part of the prospectus or the registration statement of which this prospectus supplement forms a part, has not been approved and/or endorsed by us or any underwriter or selling group member in its capacity as an underwriter or selling group member and should not be relied upon by investors.

### **Listing**

Our common units are traded on the New York Stock Exchange under the symbol "MMP."

### **National Association of Securities Dealers Conduct Rules**

Because the NASD views the common units offered hereby as interests in a direct participation program, the offering is being made in compliance with Rule 2810 of the NASD Conduct Rules.

## **LEGAL**

The validity of the common units will be passed upon for us by Vinson & Elkins L.L.P., Houston, Texas. Certain legal matters in connection with the common units offered hereby will be passed upon for the underwriters by Andrews Kurth LLP, Houston, Texas. Andrews Kurth LLP also performs legal services for us from time to time unrelated to this offering.

## **EXPERTS**

The consolidated balance sheets of Magellan Midstream Partners, L.P. (formerly Williams Energy Partners L.P.) as of December 31, 2002 and 2003 and the related consolidated statements of income, cash flows and partners' capital for each of the years ended December 31, 2001, 2002 and 2003 appearing in Magellan Midstream Partners, L.P.'s (formerly Williams Energy Partners L.P.) Annual Report on Form 10-K for the year ended December 31, 2003 and the consolidated balance sheets of Magellan GP, LLC (formerly WEG GP LLC) as of December 31, 2002 and 2003 appearing in Magellan Midstream Partners, L.P.'s Annual Report on Form 10-K for the year ended December 31, 2003 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein and incorporated herein by reference. Such consolidated balance sheets and financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

**INFORMATION REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus supplement and the documents incorporated in this prospectus supplement by reference include forward-looking statements. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. They use words such as "anticipate," "believe," "intend," "plan," "projection," "forecast," "strategy," "position," "continue," "estimate," "expect," "may," "will," or the negative of those terms or other variations of them or comparable terminology. In particular, statements, express or implied, concerning future actions, conditions or events or future operating results or the ability to generate sales, income, cash flow or cash to be distributed to unitholders are forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Future actions, conditions or events and future results of operations may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results are beyond the ability of us and our affiliates to control or predict. Specific factors which could cause actual results to differ from those in the forward-looking statements include:

price trends and overall demand for natural gas liquids, refined petroleum products, natural gas, oil and ammonia in the United States;

weather patterns materially different from historical trends;

development of alternative energy sources;

changes in demand for storage in our petroleum products terminals;

changes in supply patterns for our marine terminals due to geopolitical events;

changes in our tariff rates implemented by FERC and the United States Surface Transportation Board;

shut-downs or cutbacks at major refineries, petrochemical plants, ammonia production facilities or other businesses that use or supply our services;

changes in throughput on petroleum products pipelines owned and operated by third parties and connected to our petroleum products terminals or petroleum products pipeline system;

loss of one or more of our three customers on our ammonia pipeline system;

changes in the federal government's policy regarding farm subsidies, which could negatively impact the demand for ammonia and reduce the amount of ammonia transported through our ammonia pipeline system;

an increase in the competition our operations encounter;

the occurrence of an operational hazard or unforeseen interruption for which we are not adequately insured;

our ability to integrate any acquired operations into our existing operations;

our ability to successfully identify and close strategic acquisitions and expansion projects and make cost saving changes in operations;



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changes in general economic conditions in the United States;

changes in laws or regulations to which we are subject, including federal and state tax, safety, environmental and employment laws and regulations;

the cost and effects of legal and administrative claims and proceedings against us or our subsidiaries;

the amount of our indebtedness, which could make us vulnerable to general adverse economic and industry conditions, limit our ability to borrow additional funds, place us at competitive

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disadvantages compared to our competitors that have less debt or could have other adverse consequences;

the condition of the capital markets and equity markets in the United States;

the ability to raise capital in a cost-effective manner;

the effect of changes in accounting policies;

our ability to manage rapid growth;

Magellan Holdings' ability to perform on its environmental and right-of-way indemnifications to us;

Williams' ability to pay the amounts owed to us under the indemnification settlement;

the ability of our general partner to enter into certain agreements which could negatively impact our financial position, results of operations and cash flows;

supply disruption; and

global and domestic economic repercussions from terrorist activities and the government's response thereto.

You should not put undue reliance on any forward-looking statements.

When considering forward-looking statements, please review the risk factors described under "Risk Factors" in this prospectus supplement, the accompanying prospectuses and the documents incorporated by reference.

### **WHERE YOU CAN FIND MORE INFORMATION**

The SEC allows us to "incorporate by reference" information we file with it. This procedure means that we can disclose important information to you by referring you to documents filed with the SEC. The information we incorporate by reference is part of this prospectus and later information that we file with the SEC (excluding any information furnished pursuant to Item 9 or Item 12 on any Current Report on Form 8-K) will automatically update and supersede this information. We incorporate by reference the documents listed below:

Annual Report on Form 10-K for the year ended December 31, 2003;

Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004;

Definitive Proxy Statement on Schedule 14A filed on March 10, 2004;

Current Reports on Form 8-K filed on May 5, 2004, May 18, 2004, May 21, 2004, May 25, 2004, May 27, 2004 and June 24, 2004; and

the description of our common units contained in our Form 8-A initially filed February 2, 2001, and any subsequent amendment thereto filed for the purpose of updating such description.

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You may request a copy of these filings at no cost by making written or telephone requests for copies to:

Magellan Midstream Partners, L.P.  
P.O. Box 22186  
Tulsa, Oklahoma 74121-2186  
Attention: Investor Relations Department  
Telephone: (918) 574-7000

We also make available free of charge on our internet website at <http://www.magellanlp.com> our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information contained on our website is not part of this prospectus supplement or the accompanying prospectuses.

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**PROSPECTUS**

**\$1,800,000,000**

**WILLIAMS ENERGY PARTNERS L.P.**

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**Common Units  
Debt Securities**

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**Guarantees of Debt Securities of Williams Energy Partners L.P. by:**

**Williams GP Inc.  
Williams OLP, L.P.  
Williams Pipe Line Company, LLC  
Williams NGL, LLC  
Williams Pipelines Holdings, L.P.  
Williams Terminals Holdings, L.P.  
Williams Ammonia Pipeline, L.P.  
Williams Fractionation Holdings, L.P.**

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We may from time to time offer and sell common units and debt securities that may be fully and unconditionally guaranteed by our subsidiaries, Williams GP Inc., Williams OLP, L.P., Williams Pipe Line Company, LLC, Williams NGL, LLC, Williams Pipelines Holdings, L.P., Williams Terminals Holdings, L.P., Williams Ammonia Pipeline, L.P. and Williams Fractionation Holdings, L.P. This prospectus describes the general terms of these securities and the general manner in which we will offer the securities. The specific terms of any securities we offer will be included in a supplement to this prospectus. The prospectus supplement will also describe the specific manner in which we will offer the securities.

The New York Stock Exchange has listed our common units under the symbol "WEG." Our address is One Williams Center, Tulsa, Oklahoma 74172, and our telephone number is (918) 573-2000.

**Limited partnerships are inherently different from corporations. You should carefully consider the risk factors beginning on page 2 of this prospectus before you make an investment in our securities.**

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**Neither the securities and exchange commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**The date of this prospectus is May 16, 2002.**

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You should rely only on the information contained in this prospectus, any prospectus supplement and the documents we have incorporated by reference. We have not authorized anyone else to give you different information. We are not offering these securities in any state where they do not permit the offer. We will disclose any material changes in our affairs in an amendment to this prospectus, a prospectus supplement or a future filing with the SEC incorporated by reference in this prospectus.

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### **ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission using a "shelf" registration process. Under this shelf registration process, we may sell up to \$1.8 billion in aggregate offering price of the common units or debt securities described in this prospectus in one or more offerings. This prospectus generally describes us and the common units, debt securities and the guarantees of the debt securities. Each time we sell common units or debt securities with this prospectus, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add to, update or change information in this prospectus. The information in this prospectus is accurate as of May 15, 2002. You should carefully read both this prospectus and any prospectus supplement and the additional information described under the heading "Where You Can Find More Information."

### **ABOUT WILLIAMS ENERGY PARTNERS**

We were formed by The Williams Companies, Inc. in August 2000 to own, operate and acquire a diversified portfolio of complementary energy assets. We are principally engaged in the transportation, storage and distribution of refined petroleum products and ammonia. Williams GP LLC serves as our general partner and is an indirect wholly owned subsidiary of The Williams Companies, Inc.

As used in this prospectus, "we," "us," "our" and "Williams Energy Partners" mean Williams Energy Partners L.P. and, where the context requires, include our operating subsidiaries.

### **THE SUBSIDIARY GUARANTORS**

Williams GP Inc., Williams OLP, L.P., Williams Pipe Line Company, LLC, Williams NGL, LLC, Williams Pipelines Holdings, L.P., Williams Terminals Holdings, L.P., Williams Ammonia Pipeline, L.P. and Williams Fractionation Holdings, L.P. are our only subsidiaries as of the date of this prospectus. Williams GP Inc. and Williams Pipe Line Company, LLC are wholly owned subsidiaries of Williams Energy Partners L.P. Williams GP Inc. owns a 0.001% general partner interest and Williams Energy Partners, L.P. owns a 99.999% limited partner interest in Williams OLP, L.P. Williams OLP, L.P. owns all of the membership interests in Williams NGL LLC and a 99.999% limited partner interest in each of Williams Pipelines Holdings, L.P., Williams Terminals Holdings, L.P., Williams Ammonia Pipeline, L.P. and Williams Fractionation Holdings, L.P. Williams NGL, LLC owns a 0.001% general partner interest in each of these four partnerships. We sometimes refer to Williams GP Inc., Williams OLP, L.P., Williams NGL, LLC, Williams Pipelines Holdings, L.P., Williams Terminals Holdings, L.P., Williams Ammonia Pipeline, L.P. and Williams Fractionation Holdings, L.P. in this prospectus as the "Subsidiary Guarantors." The Subsidiary Guarantors may jointly and severally and unconditionally guarantee our payment obligations under any series of debt securities offered by this prospectus, as set forth in a related prospectus supplement.

## RISK FACTORS

*Limited partner interests are inherently different from capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. You should carefully consider the following risk factors together with all of the other information included in this prospectus, any prospectus supplement and the documents we have incorporated by reference into this document in evaluating an investment in the common units.*

*If any of the following risks were actually to occur, our business, financial condition or results of operations could be materially adversely affected. In that case, the trading price of our common units could decline and you could lose all or part of your investment.*

### **Risks Related to Our Business**

***We may not be able to generate sufficient cash from operations to allow us to pay the minimum quarterly distribution following establishment of cash reserves and payment of fees and expenses, including payments to our general partner.***

The amount of cash we can distribute on our common units principally depends upon the cash we generate from our operations. Because the cash we generate from operations will fluctuate from quarter to quarter, we may not be able to pay the minimum quarterly distribution for each quarter. Our ability to pay the minimum quarterly distribution each quarter depends primarily on cash flow, including cash flow from financial reserves and working capital borrowings, and not solely on profitability, which is affected by non-cash items. As a result, we may make cash distributions during periods when we record losses and may not make cash distributions during periods when we record net income.

***Potential future acquisitions and expansions, if any, may affect our business by substantially increasing the level of our indebtedness and contingent liabilities and increasing our risks of being unable to effectively integrate these new operations.***

From time to time, we evaluate and acquire assets and businesses that we believe complement our existing assets and businesses. Acquisitions may require substantial capital or the incurrence of substantial indebtedness. If we consummate any future acquisitions, our capitalization and results of operations may change significantly, and you will not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in determining the application of these funds and other resources.

Acquisitions and business expansions involve numerous risks, including difficulties in the assimilation of the assets and operations of the acquired businesses, inefficiencies and difficulties that arise because of unfamiliarity with new assets and the businesses associated with them and new geographic areas and the diversion of management's attention from other business concerns. Further, unexpected costs and challenges may arise whenever businesses with different operations or management are combined, and we may experience unanticipated delays in realizing the benefits of an acquisition. Following an acquisition, we may discover previously unknown liabilities associated with the acquired business for which we have no recourse under applicable indemnification provisions.

***Our financial results depend on the demand for the refined petroleum products that we store and distribute.***

Any sustained decrease in demand for refined petroleum products in the markets served by our terminals could result in a significant reduction in the volume of products that we store at our marine terminal facilities and in the throughput in our inland terminals, and therefore reduce our cash flow and our ability to pay cash distributions to you. Factors that could lead to a decrease in market demand include:

an increase in the market price of crude oil that leads to higher refined product prices, which may reduce demand for gasoline and other petroleum products. Market prices for refined



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petroleum products are subject to wide fluctuation in response to changes in global and regional supply over which we have no control;

a recession or other adverse economic condition that results in lower spending by consumers and businesses on transportation fuels such as gasoline, jet fuel and diesel;

higher fuel taxes or other governmental or regulatory actions that increase the cost of gasoline;

an increase in fuel economy, whether as a result of a shift by consumers to more fuel-efficient vehicles or technological advances by manufacturers; and

the increased use of alternative fuel sources, such as fuel cells and solar, electric and battery-powered engines. Several state and federal initiatives mandate this increased use.

***When prices for the future delivery of petroleum products that we store in our marine terminals fall below current prices, customers are less likely to store these products, thereby reducing our storage revenues.***

This market condition is commonly referred to as "backwardation." When the petroleum product market is in backwardation, the demand for storage capacity at our marine terminal facilities may decrease. The forward pricing market for petroleum products moved to backwardation in the second quarter of 1999 and continued for a majority of 2000. This market condition contributed to reduced storage revenues in 1999 and 2000. In 2001, the forward pricing market remained backwardated during the first half of the year, reversing during the latter half of 2001. If this market becomes strongly backwardated for an extended period of time, it may affect our ability to pay cash distributions to you.

***We depend on petroleum product pipelines owned and operated by others to supply our terminals.***

Most of our inland and marine terminal facilities depend on connections with petroleum product pipelines owned and operated by third parties. Reduced throughput on these pipelines because of testing, line repair, damage to pipelines, reduced operating pressures or other causes could result in our being unable to deliver products to our customers from our terminals or receive products for storage and could adversely affect our ability to pay cash distributions to you.

***Collectively, our affiliates Williams Energy Marketing & Trading Company and Williams Refining & Marketing, L.L.C. are our largest customer, and any reduction in their use of our terminal facilities could reduce our ability to pay cash distributions to you.***

For the year ended December 31, 2001, our affiliates Williams Energy Marketing & Trading and Williams Refining & Marketing collectively accounted for approximately 21.0 percent of our combined historical revenues. If Williams Energy Marketing & Trading and Williams Refining & Marketing were to decrease the throughput volume they allocate to our terminals for any reason, we could experience difficulty in replacing those lost volumes. Because our operating costs are primarily fixed, a reduction in throughput would result in not only a reduction of revenues, but also a decline in net income and cash flow of a similar magnitude, which would reduce our ability to pay cash distributions to you. Either Williams Energy Marketing & Trading or Williams Refining & Marketing could reduce the volume of throughput it allocates to us because of market conditions or because of factors that specifically affect Williams Energy Marketing & Trading or Williams Refining & Marketing, including a decrease in demand for products in the markets served by our terminals or a loss of customers in those markets.

***Our ammonia pipeline and terminals system is dependent on three customers.***

Three customers ship all of the ammonia on our pipeline and utilize the six terminals that we own and operate on the pipeline. We have contracts with Farmland Industries, Inc., Agrium U.S. Inc. and Terra Nitrogen, L.P. through June 2005 that obligate them to ship-or-pay for specified minimum quantities of ammonia. Two of these customers have credit ratings below investment grade. The loss of any one of these three customers or their failure or inability to pay us would adversely affect our ability to pay cash distributions to you.

***High natural gas prices can increase ammonia production costs and reduce the amount of ammonia transported through our ammonia pipeline and terminals system.***

The profitability of our customers that produce ammonia partially depends on the price of natural gas, which is the principal raw material used in the production of ammonia. From 1999 through the first half of 2001, natural gas prices were substantially higher than historical averages. As a result, our customers substantially curtailed their production of ammonia and shipped lower volumes of ammonia on our pipeline. Because of this, our ammonia business realized reduced revenues and cash flows in 1999, 2000 and the first six months of 2001. Our ammonia pipeline and terminals system revenues increased during the second half of 2001, when high natural gas prices returned to lower historical levels. An extended period of high natural gas prices may cause our customers to produce and ship lower volumes of ammonia, which could adversely affect our ability to pay cash distributions to you.

***Changes in or challenges to the federal government's policy regarding farm subsidies could negatively impact the demand for ammonia and result in decreased shipments through our ammonia pipeline and terminals system.***

Our customers who ship ammonia through our pipeline primarily sell the ammonia to corn farmers in the Midwest. The recently enacted 2002 Farm Bill continues the Freedom to Farm Program that provides incentives to farmers to grow corn that has resulted in large corn crops over the last few years. In addition, the bill provides for a target-price program and loan-price supports for corn farmers. This legislation extends to September 2007. If this legislation is revised, terminated or successfully attacked by foreign governments that allege it violates the General Agreement on Tariffs and Trade, it could reduce farmers' incentive to grow corn and reduce the demand for the ammonia used to fertilize corn crops. In addition, the federal government and state governments have been providing tax credits related to the production of ethanol, for which corn is the essential element. If these tax incentives are reduced or repealed, the demand for ammonia would be reduced and our customers might reduce the volumes transported through our pipeline.

***Our marine and inland terminals encounter competition from other terminal companies and our ammonia pipeline and terminals system encounters competition from rail carriers and another ammonia pipeline.***

Our marine and inland terminals face competition from large, generally well-financed companies that own many terminals, as well as from small companies. Our marine and inland terminals also encounter competition from integrated refining and marketing companies that own their own terminal facilities. Our customers demand delivery of products on tight time schedules and in a number of geographic markets. If our quality of service declines or we cannot meet the demands of our customers, they may use our competitors.

We compete primarily with rail carriers for the transportation of ammonia. If our customers elect to transport ammonia by rail rather than pipeline, we may realize lower revenues and cash flows and our ability to pay cash distributions may be adversely affected. Our ammonia pipeline also competes with the Koch Pipeline Company LP ammonia pipeline in Iowa and Nebraska.

***Our business is subject to federal, state and local laws and regulations that govern the environmental and operational safety aspects of our operations.***

Our marine and inland terminal facilities and ammonia pipeline and terminals system are subject to the risk of incurring substantial costs and liabilities under environmental and safety laws. These costs and liabilities arise under increasingly strict environmental and safety laws, including regulations and governmental enforcement policies, and as a result of claims for damages to property or persons arising from our operations. Failure to comply with these laws and regulations may result in assessment of administrative, civil and criminal penalties, imposition of cleanup and site restoration costs and liens and, to a lesser extent, issuance of injunctions to limit or cease operations. If we were unable to recover these costs through increased revenues, our ability to pay cash distributions to you could be adversely affected.

We own a number of properties that have been used for many years to distribute or store petroleum products by third parties not under our control. In some cases, owners, tenants or users of these properties have disposed of or released hydrocarbons or solid wastes on or under these properties. In addition, some of our terminals are located on or near current or former refining and terminal operations, and there is a risk that contamination is present on these sites. The transportation of ammonia by our pipeline is hazardous and may result in environmental damage, including accidental releases that may cause death or injuries to humans and farm animals and damage to crops.

***Terrorist attacks aimed at our facilities could adversely affect our business.***

On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scale. Since the September 11 attacks, the U.S. government has issued warnings that energy assets, specifically our nation's pipeline infrastructure, may be the future target of terrorist organizations. These developments have subjected our operations to increased risks. Any future terrorist attack on our facilities, those of our customers and, in some cases, those of other pipelines, could have a material adverse effect on our business.

***Our business involves many hazards and operational risks, some of which may not be covered by insurance.***

Our operations are subject to the many hazards inherent in the transportation of refined petroleum products and ammonia, including ruptures, leaks and fires. These risks could result in substantial losses due to personal injury or loss of life, severe damage to and destruction of property and equipment and pollution or other environmental damage and may result in curtailment or suspension of our related operations. We are not fully insured against all risks incident to our business. In addition, as a result of market conditions, premiums and deductibles for some of our insurance policies have increased substantially and could escalate further. In some instances, insurance could become unavailable or available only for reduced amounts of coverage. For example, insurance carriers are now requiring broad exclusions for losses due to war risk and terrorist and sabotage acts. If a significant accident or event occurs that is not fully insured, it could adversely affect our financial position or results of operations.

**Risks Related to Our Partnership Structure**

***We are a holding company and depend entirely on our operating subsidiaries' distributions to service our debt obligations.***

We are a holding company with no material operations. If we cannot receive cash distributions from our operating subsidiaries, we will not be able to meet our debt service obligations. Our operating subsidiaries may from time to time incur additional indebtedness under agreements that contain restrictions which could further limit each operating subsidiary's ability to make distributions to us.

The debt securities we issue and any guarantees issued by the subsidiary guarantors will be structurally subordinated to the claims of the creditors of any of our operating subsidiaries who are not guarantors of the debt securities. Holders of the debt securities will not be creditors of our operating subsidiaries who have not guaranteed the debt securities. The claims to the assets of these non-guarantor operating subsidiaries derive from our own ownership interests in those operating subsidiaries. Claims of our non-guarantor operating subsidiaries' creditors will generally have priority as to the assets of such operating subsidiaries over our own ownership interest claims and will therefore have priority over the holders of our debt, including the debt securities. Our non-guarantor operating subsidiaries' creditors may include:

general creditors;

trade creditors;

secured creditors;

taxing authorities; and

creditors holding guarantees.

***Cost reimbursements due our general partner may be substantial and will reduce our cash available for distribution to you.***

Prior to making any distribution on the common units, we will reimburse the general partner and its affiliates, including officers and directors of our general partner, for expenses they incur on our behalf. The reimbursement of expenses could adversely affect our ability to pay cash distributions to you. Our general partner has sole discretion to determine the amount of these expenses, subject to an annual limit. In addition, our general partner and its affiliates may provide us other services for which we will be charged fees as determined by our general partner.

***Our general partner and its affiliates may have conflicts with our partnership.***

The directors and officers of our general partner and its affiliates have duties to manage the general partner in a manner that is beneficial to its members. At the same time, the general partner has duties to manage us in a manner that is beneficial to us. Therefore, the general partner's duties to us may conflict with the duties of its officers and directors to its members.

Such conflicts may include, among others, the following:

decisions of our general partner regarding the amount and timing of cash expenditures, borrowings and issuances of additional limited partnership units or other securities can affect the amount of incentive compensation payments we make to our general partner;

under our partnership agreement we reimburse the general partner for the costs of managing and operating us; and

under our partnership agreement, it is not a breach of our general partner's fiduciary duties for affiliates of our general partner to engage in activities that compete with us.

***Unitholders have limited voting rights and control of management.***

Our general partner manages and controls our activities and the activities of our operating partnerships. Unitholders have no right to elect the general partner or the directors of the general partner on an annual or other ongoing basis. However, if the general partner resigns or is removed, its successor may be elected by holders of a majority of the limited partnership units. Unitholders may remove the general partner only by a vote of the holders of at least 66 2/3% of the common units. As a result, unitholders will have limited influence on matters affecting our operations, and third parties may find it difficult to gain control of us or influence our actions.

***Our general partner's absolute discretion in determining the level of cash reserves may adversely affect our ability to make cash distributions to our unitholders.***

Our partnership agreement requires our general partner to deduct from operating surplus cash reserves that in its reasonable discretion are necessary to fund our future operating expenditures. In addition, the partnership agreement permits our general partner to reduce available cash by establishing cash reserves for the proper conduct of our business, to comply with applicable law or agreements to which we are a party or to provide funds for future distributions to partners. These cash reserves will affect the amount of cash available for distribution to our unitholders.

***We may issue additional common units without your approval, which would dilute your existing ownership interests.***

During the subordination period, our general partner may cause us to issue up to 2,839,847 additional common units without your approval. Our general partner may also cause us to issue an unlimited number of additional common units, without your approval, in a number of circumstances, such as:

the issuance of common units in connection with acquisitions that increase cash flow from operations per unit on a pro forma basis;

the conversion of subordinated units into common units;

the conversion of the general partner interest and the incentive distribution rights into common units as a result of the withdrawal of our general partner;

issuances of common units under our long-term incentive plan; or

issuances of common units to repay up to \$40.0 million in indebtedness.

The issuance of additional common units or other equity securities of equal or senior rank will have the following effects:

your proportionate ownership interest in Williams Energy Partners will decrease;

the amount of cash available for distribution on each unit may decrease;

since a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by the common unitholders will increase;

the relative voting strength of each previously outstanding unit may be diminished; and

the market price of the common units may decline.

After the end of the subordination period, we may issue an unlimited number of limited partner interests of any type without the approval of the unitholders. Our partnership agreement does not give the unitholders the right to approve our issuance of equity securities ranking junior to the common units.

***Our general partner has a limited call right that may require you to sell your units at an undesirable time or price.***

If at any time our general partner and its affiliates own 80% or more of the common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the remaining common units held by unaffiliated persons at a price not less than their then current market price. As a result, you may be required to sell your common units at an undesirable time or price and may therefore not receive any return on your investment. You may also incur a tax liability upon a sale of your units.

***You may not have limited liability if a court finds that unitholder actions constitute control of our business.***

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Under Delaware law, you could be held liable for our obligations to the same extent as a general partner if a court determined that the right of unitholders to remove our general partner or to take other action under the partnership agreement constituted participation in the "control" of our business.

The general partner generally has unlimited liability for the obligations of the partnership, such as its debts and environmental liabilities, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner.

In addition, Section 17-607 of the Delaware Revised Uniform Limited Partnership Act provides that, under some circumstances, a unitholder may be liable to us for the amount of a distribution for a period of three years from the date of the distribution.

### **Tax Risks to Common Unitholders**

You should read "Material Tax Consequences" for a more complete discussion of the expected federal income tax consequences related to owning and disposing of common units.

***The IRS could treat us as a corporation for tax purposes, which would substantially reduce the cash available for distribution to you.***

The anticipated after-tax benefit of an investment in the common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other matter affecting us.

If we were classified as a corporation for federal income tax purposes, we would pay federal income tax on our income at the corporate tax rate, which is currently a maximum of 35%. Distributions to you would generally be taxed again to you as corporate distributions, and no income, gains, losses or deductions would flow through to you. Because a tax would be imposed upon us as a corporation, the cash available for distribution to you would be substantially reduced. Treatment of us as a corporation would result in a material reduction in the after-tax return to you, likely causing a substantial reduction in the value of the common units.

Current law may change so as to cause us to be taxed as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. The partnership agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, then the minimum quarterly distribution and the target distribution levels will be decreased to reflect that impact on us.

***A successful IRS contest of the federal income tax positions we take may adversely impact the market for common units, and the costs of any contests will be borne by our unitholders and our general partner.***

We have not requested a ruling from the IRS with respect to any matter affecting us. The IRS may adopt positions that differ from the conclusions of our counsel expressed in this prospectus or from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain our counsel's conclusions or the positions we take. A court may not concur with our counsel's conclusions or the positions we take. Any contest with the IRS may materially and adversely impact the market for common units and the price at which they trade. In addition, the costs of any contest with the IRS, principally legal, accounting and related fees, will be borne indirectly by our unitholders and our general partner.

***You may be required to pay taxes even if you do not receive any cash distributions.***

You will be required to pay federal income taxes and, in some cases, state and local income taxes on your share of our taxable income even if you do not receive any cash distributions from us. You may not receive cash distributions from us equal to your share of our taxable income or even equal to the actual tax liability that results from your share of our taxable income.

***Tax gain or loss on disposition of common units could be different than expected.***

If you sell your common units, you will recognize gain or loss equal to the difference between the amount realized and your tax basis in those common units. Prior distributions in excess of the total net taxable income you were allocated for a common unit, which decreased your tax basis in that common

unit, will, in effect, become taxable income to you if the common unit is sold at a price greater than your tax basis in that common unit, even if the price you receive is less than your original cost. A substantial portion of the amount realized, whether or not representing gain, may be ordinary income to you. Should the IRS successfully contest some positions we take, you could recognize more gain on the sale of units than would be the case under those positions, without the benefit of decreased income in prior years. Also, if you sell your units, you may incur a tax liability in excess of the amount of cash you receive from the sale.

***Tax-exempt entities, regulated investment companies, and foreign persons face unique tax issues from owning common units that may result in adverse tax consequences to them.***

Investment in common units by tax-exempt entities, such as individual retirement accounts (known as IRAs), regulated investment companies (known as mutual funds) and foreign persons raises issues unique to them. For example, virtually all of our income allocated to organizations exempt from federal income tax, including individual retirement accounts and other retirement plans, will be unrelated business taxable income and will be taxable to them. Very little of our income will be qualifying income to a regulated investment company or mutual fund. Distributions to foreign persons will be reduced by withholding taxes at the highest effective U.S. federal income tax rate for individuals, and foreign persons will be required to file federal income tax returns and pay tax on their share of our taxable income.

***We are registered as a tax shelter. this may increase the risk of an IRS audit of us or a unitholder.***

We are registered with the IRS as a "tax shelter." Our tax shelter registration number is 01036000014. The IRS requires that some types of entities, including some partnerships, register as "tax shelters" in response to the perception that they claim tax benefits that the IRS may believe to be unwarranted. As a result, we may be audited by the IRS and tax adjustments could be made. Any unitholder owning less than a 1% profits interest in us has very limited rights to participate in the income tax audit process. Further, any adjustments in our tax returns will lead to adjustments in our unitholders' tax returns and may lead to audits of unitholders' tax returns and adjustments of items unrelated to us. You will bear the cost of any expense incurred in connection with an examination of your personal tax return.

***We will treat each purchaser of common units as having the same tax benefits without regard to the units purchased. The IRS may challenge this treatment, which could adversely affect the value of our common units.***

Because we cannot match transferors and transferees of common units, we adopt depreciation and amortization positions that do not conform with all aspects of final Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to you. It also could affect the timing of these tax benefits or the amount of gain from your sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to your tax returns. Please read "Material Tax Consequences Uniformity of Units" for a further discussion of the effect of the depreciation and amortization positions we adopt.

***You will likely be subject to state and local taxes in states where you do not live as a result of an investment in our common units.***

In addition to federal income taxes, you will likely be subject to other taxes, including state and local income taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property and in which you do not reside. You may be required to file state and local income tax returns and pay state and local income taxes in many or all of the jurisdictions in which we do business or own property. Further, you may be subject to penalties for failure to comply with those requirements. It is your responsibility to file all United States federal, state and local tax returns. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in the common units.



**WHERE YOU CAN FIND MORE INFORMATION**

Williams Energy Partners files annual, quarterly and other reports and other information with the SEC. You may read and copy any document we file at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-732-0330 for further information on their public reference room. Our SEC filings are also available at the SEC's web site at <http://www.sec.gov>. You can also obtain information about us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

The SEC allows Williams Energy Partners to "incorporate by reference" the information it has filed with the SEC. This means that Williams Energy Partners can disclose important information to you without actually including the specific information in this prospectus by referring you to those documents. The information incorporated by reference is an important part of this prospectus. Information that Williams Energy Partners files later with the SEC will automatically update and may replace information in this prospectus and information previously filed with the SEC. The documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 are incorporated by reference in this prospectus until the termination of each offering under this prospectus.

Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

Amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2001.

Current Report on Form 8-K filed January 3, 2002.

Amended Current Report on Form 8-K/A filed January 14, 2002.

Current Report on Form 8-K filed January 30, 2002.

Current Report on Form 8-K filed March 8, 2002.

Current Report on Form 8-K filed April 11, 2002.

Current Report on Form 8-K filed April 19, 2002.

Current Report on Form 8-K filed April 29, 2002.

Current Report on Form 8-K filed May 3, 2002.

Amended Current Report on Form 8-K/A filed May 9, 2002.

Quarterly Report on Form 10-Q filed May 10, 2002.

Current Report on Form 8-K filed May 15, 2002.

The description of the limited partnership units contained in the Registration Statement on Form 8-A, initially filed February 2, 2001, and any subsequent amendment thereto filed for the purpose of updating such description.

You may request a copy of any document incorporated by reference in this prospectus, at no cost, by writing or calling us at the following address:

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Investor Relations Department  
Williams Energy Partners L.P.  
One Williams Center  
Tulsa, Oklahoma 74172  
(918) 573-2000

**FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS**

Some of the information included in this prospectus, the accompanying prospectus supplement and the documents we incorporate by reference contain forward-looking statements. These statements use forward-looking words such as "may," "will," "anticipate," "believe," "expect," "project" or other similar words. These statements discuss goals, intentions and expectations as to future trends, plans, events, results of operations or financial condition or state other "forward-looking" information. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this prospectus, any prospectus supplement and the documents we have incorporated by reference. These statements reflect Williams Energy Partners' current views with respect to future events and are subject to various risks, uncertainties and assumptions including, but not limited, to the following:

Price trends and overall demand for natural gas liquids, refined petroleum products, natural gas, oil and ammonia in the United States; economic activity, weather, alternative energy sources, conservation and technological advances may affect price trends and demand;

Changes in demand for refined petroleum products that we store and distribute;

Changes in demand for storage in our petroleum product terminals;

Changes in our tariff rates implemented by the Federal Energy Regulatory Commission and the United States Surface Transportation Board;

Shut-downs or cutbacks at major refineries, petrochemical plants, ammonia production facilities or other businesses that use or supply our services;

Changes in the throughput on petroleum product pipelines owned and operated by third parties and connected to our petroleum product terminals;

Loss of Williams Energy Marketing & Trading Company and/or Williams Refining & Marketing, L.L.C. as customers;

Loss of one or all of our three customers on our ammonia pipeline and terminals system;

An increase in the price of natural gas, which increases ammonia production costs and reduces the amount of ammonia transported through our ammonia pipeline and terminals system;

Changes in the federal government's policy regarding farm subsidies, which negatively impact the demand for ammonia and reduce the amount of ammonia transported through our ammonia pipeline and terminals system;

An increase in the competition our petroleum products terminals and ammonia pipeline and terminals system encounter;

The occurrence of an operational hazard or unforeseen interruption for which we are not adequately insured;

Our ability to integrate any acquired operations into our existing operations;

Our ability to successfully identify and close strategic acquisitions and make cost saving changes in operations;

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Changes in general economic conditions in the United States;

Changes in laws and regulations to which we are subject, including tax, environmental and employment laws and regulations;

The amount of our respective indebtedness, which could make us vulnerable to general adverse economic and industry conditions, limit our ability to borrow additional funds, place us at competitive disadvantages compared to our competitors that have less debt or have other adverse consequences;

The condition of the capital markets and equity markets in the United States;

The ability to raise capital in a cost-effective way;

The cost and effects of legal and administrative claims and proceedings against us or our subsidiaries;

The effect of changes in accounting policies;

The ability to control costs; and

The political and economic stability of the oil producing nations of the world.

**USE OF PROCEEDS**

Except as otherwise provided in the applicable prospectus supplement, we will use the net proceeds we receive from the sale of the securities to pay all or a portion of indebtedness outstanding at the time and to acquire assets as suitable opportunities arise.

**RATIO OF EARNINGS TO FIXED CHARGES**

The ratio of earnings to fixed charges for each of the periods indicated is as follows:

	<b>Twelve Months Ended December 31,</b>				
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Ratio of Earnings to Fixed Charges	6.77x	6.69x	5.32x	3.75x	7.20x

For purposes of calculating the ratio of earnings to fixed charges:

"fixed charges" represent interest expense (including amounts capitalized), amortization of debt costs and the portion of rental expense representing the interest factor; and

"earnings" represent the aggregate of income from continuing operations (before adjustment for minority interest, extraordinary loss and equity earnings), fixed charges and distributions from equity investment, less capitalized interest.

## DESCRIPTION OF DEBT SECURITIES

We will issue our debt securities under an indenture, among us, as issuer, the Trustee, and the subsidiary guarantors. The debt securities will be governed by the provisions of the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939. We, the Trustee and the Subsidiary Guarantors may enter into supplements to the Indenture from time to time. If we decide to issue subordinated debt securities, we will issue them under a separate Indenture containing subordination provisions.

This description is a summary of the material provisions of the debt securities and the Indentures. We urge you to read the forms of senior indenture and subordinated indenture filed as exhibits to the registration statement of which this prospectus is a part because those Indentures, and not this description, govern your rights as a holder of debt securities. References in this prospectus to an "Indenture" refer to the particular Indenture under which we issue a series of debt securities.

### General

#### *The Debt Securities*

Any series of debt securities that we issue:

will be our general obligations;

will be general obligations of the Subsidiary Guarantors if they are guaranteed by the Subsidiary Guarantors; and

may be subordinated to our Senior Indebtedness and that of the Subsidiary Guarantors.

The Indenture does not limit the total amount of debt securities that we may issue. We may issue debt securities under the Indenture from time to time in separate series, up to the aggregate amount authorized for each such series.

We will prepare a prospectus supplement and either an indenture supplement or a resolution of the board of directors of our general partner and accompanying officers' certificate relating to any series of debt securities that we offer, which will include specific terms relating to some or all of the following:

the form and title of the debt securities;

the total principal amount of the debt securities;

the date or dates on which the debt securities may be issued;

the portion of the principal amount which will be payable if the maturity of the debt securities is accelerated;

any right we may have to defer payments of interest by extending the dates payments are due and whether interest on those deferred amounts will be payable;

the dates on which the principal and premium, if any, of the debt securities will be payable;

the interest rate which the debt securities will bear and the interest payment dates for the debt securities;

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any optional redemption provisions;

any sinking fund or other provisions that would obligate us to repurchase or otherwise redeem the debt securities;

whether the debt securities are entitled to the benefits of any guarantees by the Subsidiary Guarantors;

whether the debt securities may be issued in amounts other than \$1,000 each or multiples thereof;

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any changes to or additional Events of Default or covenants;

the subordination, if any, of the debt securities and any changes to the subordination provisions of the Indenture; and

any other terms of the debt securities.

This description of debt securities will be deemed modified, amended or supplemented by any description of any series of debt securities set forth in a prospectus supplement related to that series.

The prospectus supplement will also describe any material United States federal income tax consequences or other special considerations regarding the applicable series of debt securities, including those relating to:

debt securities with respect to which payments of principal, premium or interest are determined with reference to an index or formula, including changes in prices of particular securities, currencies or commodities;

debt securities with respect to which principal, premium or interest is payable in a foreign or composite currency;

debt securities that are issued at a discount below their stated principal amount, bearing no interest or interest at a rate that at the time of issuance is below market rates; and

variable rate debt securities that are exchangeable for fixed rate debt securities.

At our option, we may make interest payments by check mailed to the registered holders of debt securities or, if so stated in the applicable prospectus supplement, at the option of a holder by wire transfer to an account designated by the holder.

Unless otherwise provided in the applicable prospectus supplement, fully registered securities may be transferred or exchanged at the office of the Trustee at which its corporate trust business is principally administered in the United States, subject to the limitations provided in the Indenture, without the payment of any service charge, other than any applicable tax or governmental charge.

Any funds we pay to a paying agent for the payment of amounts due on any debt securities that remain unclaimed for two years will be returned to us, and the holders of the debt securities must look only to us for payment after that time.

### *The Subsidiary Guarantees*

Our payment obligations under any series of debt securities may be jointly and severally, fully and unconditionally guaranteed by the Subsidiary Guarantors. If a series of debt securities are so guaranteed, the Subsidiary Guarantors will execute a notation of guarantee as further evidence of their guarantee. The applicable prospectus supplement will describe the terms of any guarantee by the Subsidiary Guarantors.

The obligations of each Subsidiary Guarantor under its guarantee of the debt securities will be limited to the maximum amount that will not result in the obligations of the Subsidiary Guarantor under the guarantee constituting a fraudulent conveyance or fraudulent transfer under Federal or state law, after giving effect to:

all other contingent and fixed liabilities of the Subsidiary Guarantor; and

any collections from or payments made by or on behalf of any other Subsidiary Guarantors in respect of the obligations of the Subsidiary Guarantor under its guarantee.



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The guarantee of any Subsidiary Guarantor may be released under certain circumstances. If no default has occurred and is continuing under the Indenture, and to the extent not otherwise prohibited by the Indenture, a Subsidiary Guarantor will be unconditionally released and discharged from the guarantee:

automatically upon any sale, exchange or transfer, to any person that is not our affiliate, of all of our direct or indirect limited partnership or other equity interests in the Subsidiary Guarantor;

automatically upon the merger of the Subsidiary Guarantor into us or any other Subsidiary Guarantor or the liquidation and dissolution of the Subsidiary Guarantor; or

following delivery of a written notice by us to the Trustee, upon the release of all guarantees by the Subsidiary Guarantor of any debt of ours for borrowed money (or a guarantee of such debt), except for any series of debt securities.

If a series of debt securities is guaranteed by the Subsidiary Guarantors and is designated as subordinate to our Senior Indebtedness, then the guarantees by the Subsidiary Guarantors will be subordinated to the Senior Indebtedness of the Subsidiary Guarantors to substantially the same extent as the series is subordinated to our Senior Indebtedness. See " Subordination."

## **Covenants**

### ***Reports***

The Indenture contains the following covenant for the benefit of the holders of all series of debt securities:

So long as any debt securities are outstanding, we will:

for as long as we are required to file information with the SEC pursuant to the Exchange Act, file with the Trustee, within 15 days after we are required to file with the SEC, copies of the annual report and of the information, documents and other reports which we are required to file with the SEC pursuant to the Exchange Act;

if we are not required to file information with the SEC pursuant to the Exchange Act, file with the Trustee, within 15 days after we would have been required to file with the SEC, financial statements and a Management's Discussion and Analysis of Financial Condition and Results of Operations, both comparable to what we would have been required to file with the SEC had we been subject to the reporting requirements of the Exchange Act; and

if we are required to furnish annual or quarterly reports to our unitholders pursuant to the Exchange Act, we will file with the Trustee any annual report or other reports sent to our unitholders generally.

A series of debt securities may contain additional financial and other covenants applicable to us and our subsidiaries. The applicable prospectus supplement will contain a description of any such covenants that are added to the Indenture specifically for the benefit of holders of a particular series.

## **Events of Default, Remedies and Notice**

### ***Events of Default***

Each of the following events will be an "Event of Default" under the Indenture with respect to a series of debt securities:

default in any payment of interest on any debt securities of that series when due that continues for 30 days;

default in the payment of principal of or premium, if any, on any debt securities of that series when due at its stated maturity, upon redemption, upon required repurchase or otherwise;

default in the payment of any sinking fund payment on any debt securities of that series when due;

failure by us or, if the series of debt securities is guaranteed by the Subsidiary Guarantors, by a Subsidiary Guarantor, to comply for 60 days after notice with the other agreements contained in the Indenture, any supplement to the Indenture or any board resolution authorizing the issuance of that series;

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certain events of bankruptcy, insolvency or reorganization of us or, if the series of debt securities is guaranteed by the Subsidiary Guarantors, of the Subsidiary Guarantors; or

if the series of debt securities is guaranteed by the Subsidiary Guarantors:

any of the guarantees by the Subsidiary Guarantors ceases to be in full force and effect, except as otherwise provided in the Indenture;

any of the guarantees by the Subsidiary Guarantors is declared null and void in a judicial proceeding; or

any Subsidiary Guarantor denies or disaffirms its obligations under the Indenture or its guarantee.

### *Exercise of Remedies*

If an Event of Default, other than an Event of Default described in the fifth bullet point above, occurs and is continuing, the trustee or the holders of at least 25% in principal amount of the outstanding debt securities of that series may declare the entire principal of, premium, if any, and accrued and unpaid interest, if any, on all the debt securities of that series to be due and payable immediately.

A default under the fourth bullet point above will not constitute an Event of Default until the Trustee or the holders of 25% in principal amount of the outstanding debt securities of that series notify us and, if the series of debt securities is guaranteed by the Subsidiary Guarantors, the Subsidiary Guarantors, of the default and such default is not cured within 60 days after receipt of notice.

If an Event of Default described in the fifth bullet point above occurs and is continuing, the principal of, premium, if any, and accrued and unpaid interest on all outstanding debt securities of all series will become immediately due and payable without any declaration of acceleration or other act on the part of the Trustee or any holders.

The holders of a majority in principal amount of the outstanding debt securities of a series may:

waive all past defaults, except with respect to nonpayment of principal, premium or interest; and

rescind any declaration of acceleration by the Trustee or the holders with respect to the debt securities of that series,

but only if:

rescinding the declaration of acceleration would not conflict with any judgment or decree of a court of competent jurisdiction; and

all existing Events of Default have been cured or waived, other than the nonpayment of principal, premium or interest on the debt securities of that series that have become due solely by the declaration of acceleration.

If an Event of Default occurs and is continuing, the Trustee will be under no obligation, except as otherwise provided in the Indenture, to exercise any of the rights or powers under the Indenture at the request or direction of any of the holders unless such holders have offered to the Trustee reasonable indemnity or security against any costs, liability or expense. No holder may pursue any remedy with respect to the Indenture or the debt securities of any series, except to enforce the right to receive payment of principal, premium or interest when due, unless:

such holder has previously given the Trustee notice that an Event of Default with respect to that series is continuing;

holders of at least 25% in principal amount of the outstanding debt securities of that series have requested that the Trustee pursue the remedy;

such holders have offered the Trustee reasonable indemnity or security against any cost, liability or expense;

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the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of indemnity or security; and

the holders of a majority in principal amount of the outstanding debt securities of that series have not given the Trustee a direction that, in the opinion of the Trustee, is inconsistent with such request within such 60-day period.

The holders of a majority in principal amount of the outstanding debt securities of a series have the right, subject to certain restrictions, to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any right or power conferred on the Trustee with respect to that series of debt securities. The Trustee, however, may refuse to follow any direction that:

conflicts with law;

is inconsistent with any provision of the Indenture;

the Trustee determines is unduly prejudicial to the rights of any other holder;

would involve the Trustee in personal liability.

### *Notice of Event of Default*

Within 30 days after the occurrence of an Event of Default, we are required to give written notice to the Trustee and indicate the status of the default and what action we are taking or propose to take to cure the default. In addition, we are required to deliver to the Trustee, within 120 days after the end of each fiscal year, a compliance certificate indicating that we have complied with all covenants contained in the Indenture or whether any default or Event of Default has occurred during the previous year.

If an Event of Default occurs and is continuing and is known to the Trustee, the Trustee must mail to each holder a notice of the Event of Default by the later of 90 days after the Event of Default occurs or 30 days after the Trustee knows of the Event of Default. Except in the case of a default in the payment of principal, premium or interest with respect to any debt securities, the Trustee may withhold such notice, but only if and so long as the board of directors, the executive committee or a committee of directors or responsible officers of the Trustee in good faith determines that withholding such notice is in the interests of the holders.

### **Amendments and Waivers**

We may amend the Indenture without the consent of any holder of debt securities to:

cure any ambiguity, omission, defect or inconsistency;

convey, transfer, assign, mortgage or pledge any property to or with the Trustee;

provide for the assumption by a successor of our obligations under the Indenture;

add Subsidiary Guarantors with respect to the debt securities;

change or eliminate any restriction on the payment of principal of, or premium, if any, on, any debt securities;

secure the debt securities;

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add covenants for the benefit of the holders or surrender any right or power conferred upon us or any Subsidiary Guarantor;

make any change that does not adversely affect the rights of any holder;

add or appoint a successor or separate Trustee; or

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comply with any requirement of the SEC in connection with the qualification of the Indenture under the Trust Indenture Act.

In addition, we may amend the Indenture if the holders of a majority in principal amount of all debt securities of each series that would be affected then outstanding under the Indenture consent to it. We may not, however, without the consent of each holder of outstanding debt securities of each series that would be affected, amend the Indenture to:

reduce the percentage in principal amount of debt securities of any series whose holders must consent to an amendment;

reduce the rate of or extend the time for payment of interest on any debt securities;

reduce the principal of or extend the stated maturity of any debt securities;

reduce the premium payable upon the redemption of any debt securities or change the time at which any debt securities may or shall be redeemed;

make any debt securities payable in other than U.S. dollars;

impair the right of any holder to receive payment of premium, principal or interest with respect to such holder's debt securities on or after the applicable due date;

impair the right of any holder to institute suit for the enforcement of any payment with respect to such holder's debt securities;

release any security that has been granted in respect of the debt securities;

make any change in the amendment provisions which require each holder's consent;

make any change in the waiver provisions; or

release a Subsidiary Guarantor or modify such Subsidiary Guarantor's guarantee in any manner adverse to the holders.

The consent of the holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment. After an amendment under the Indenture becomes effective, we are required to mail to all holders a notice briefly describing the amendment. The failure to give, or any defect in, such notice, however, will not impair or affect the validity of the amendment.

The holders of a majority in aggregate principal amount of the outstanding debt securities of each affected series, on behalf of all such holders, and subject to certain rights of the Trustee, may waive:

compliance by us or a Subsidiary Guarantor with certain restrictive provisions of the Indenture; and

any past default under the Indenture, subject to certain rights of the Trustee under the Indenture;

except that such majority of holders may not waive a default:



in the payment of principal, premium or interest; or

in respect of a provision that under the Indenture cannot be amended without the consent of all holders of the series of debt securities that is affected.

**Defeasance**

At any time, we may terminate, with respect to debt securities of a particular series, all our obligations under such series of debt securities and the Indenture, which we call a "legal defeasance." If we decide to make a legal defeasance, however, we may not terminate our obligations:

relating to the defeasance trust;

to register the transfer or exchange of the debt securities;

to replace mutilated, destroyed, lost or stolen debt securities; or

to maintain a registrar and paying agent in respect of the debt securities.

If we exercise our legal defeasance option, any subsidiary guarantee will terminate with respect to that series of debt securities.

At any time we may also effect a "covenant defeasance," which means we have elected to terminate our obligations under:

covenants applicable to a series of debt securities and described in the prospectus supplement applicable to such series, other than as described in such prospectus supplement;

the bankruptcy provisions with respect to the Subsidiary Guarantors, if any; and

the guarantee provision described under "Events of Default" above with respect to a series of debt securities.

We may exercise our legal defeasance option notwithstanding our prior exercise of our covenant defeasance option. If we exercise our legal defeasance option, payment of the affected series of debt securities may not be accelerated because of an Event of Default with respect to that series. If we exercise our covenant defeasance option, payment of the affected series of debt securities may not be accelerated because of an Event of Default specified in the fourth, fifth (with respect only to a Subsidiary Guarantor (if any)) or sixth bullet points under " Events of Default" above or an Event of Default that is added specifically for such series and described in a prospectus supplement.

In order to exercise either defeasance option, we must:

irrevocably deposit in trust with the Trustee money or certain U.S. government obligations for the payment of principal, premium, if any, and interest on the series of debt securities to redemption or maturity, as the case may be;

comply with certain other conditions, including that no default has occurred and is continuing after the deposit in trust; and

deliver to the Trustee of an opinion of counsel to the effect that holders of the series of debt securities will not recognize income, gain or loss for Federal income tax purposes as a result of such defeasance and will be subject to Federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred. In the case of legal defeasance only, such opinion of counsel must be based on a ruling of the Internal Revenue Service or other change in applicable Federal income tax law.

#### **No Personal Liability of General Partner**

Williams GP LLC, our general partner, and its directors, officers, employees, incorporators and stockholders, as such, will not be liable for:

any of our obligations or the obligations of the Subsidiary Guarantors under the debt securities, the Indentures or the guarantees; or

any claim based on, in respect of, or by reason of, such obligations or their creation.

By accepting a debt security, each holder will be deemed to have waived and released all such liability. This waiver and release are part of the consideration for our issuance of the debt securities. This waiver may not be effective, however, to waive liabilities under the federal securities laws and it is the view of the SEC that such a waiver is against public policy.

## Subordination

Debt securities of a series may be subordinated to our "Senior Indebtedness," which we define generally to include any obligation created or assumed by us (or, if the series is guaranteed, the Subsidiary Guarantors) for the repayment of borrowed money and any guarantee therefor, whether outstanding or hereafter issued, unless, by the terms of the instrument creating or evidencing such obligation, it is provided that such obligation is subordinate or not superior in right of payment to the debt securities (or, if the series is guaranteed, the guarantee of the Subsidiary Guarantors), or to other obligations which are pari passu with or subordinated to the debt securities (or, if the series is guaranteed, the guarantee of the Subsidiary Guarantors). Subordinated debt securities will be subordinate in right of payment, to the extent and in the manner set forth in the Indenture and the prospectus supplement relating to such series, to the prior payment of all of our indebtedness and that of any Subsidiary Guarantor that is designated as "Senior Indebtedness" with respect to the series.

The holders of Senior Indebtedness of ours or, if applicable, a Subsidiary Guarantor, will receive payment in full of the Senior Indebtedness before holders of subordinated debt securities will receive any payment of principal, premium or interest with respect to the subordinated debt securities:

upon any payment or distribution of our assets or, if applicable to any series of outstanding debt securities, the Subsidiary Guarantors' assets, to creditors;

upon a liquidation or dissolution of us or, if applicable to any series of outstanding debt securities, the Subsidiary Guarantors; or

in a bankruptcy, receivership or similar proceeding relating to us or, if applicable to any series of outstanding debt securities, to the Subsidiary Guarantors.

Until the Senior Indebtedness is paid in full, any distribution to which holders of subordinated debt securities would otherwise be entitled will be made to the holders of Senior Indebtedness, except that the holders of subordinated debt securities may receive units representing limited partner interests and any debt securities that are subordinated to Senior Indebtedness to at least the same extent as the subordinated debt securities.

If we do not pay any principal, premium or interest with respect to Senior Indebtedness within any applicable grace period (including at maturity), or any other default on Senior Indebtedness occurs and the maturity of the Senior Indebtedness is accelerated in accordance with its terms, we may not:

make any payments of principal, premium, if any, or interest with respect to subordinated debt securities;

make any deposit for the purpose of defeasance of the subordinated debt securities; or

repurchase, redeem or otherwise retire any subordinated debt securities, except that in the case of subordinated debt securities that provide for a mandatory sinking fund, we may deliver subordinated debt securities to the Trustee in satisfaction of our sinking fund obligation,

unless, in either case,

the default has been cured or waived and any declaration of acceleration has been rescinded;

the Senior Indebtedness has been paid in full in cash; or

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we and the Trustee receive written notice approving the payment from the representatives of each issue of "Designated Senior Indebtedness."

Generally, "Designated Senior Indebtedness" will include:

any specified issue of Senior Indebtedness of at least \$100 million; and

any other Senior Indebtedness that we may designate in respect of any series of subordinated debt securities.

During the continuance of any default, other than a default described in the immediately preceding paragraph, that may cause the maturity of any Designated Senior Indebtedness to be accelerated immediately without further notice, other than any notice required to effect such acceleration, or the expiration of any applicable grace periods, we may not pay the subordinated debt securities for a period called the "Payment Blockage Period." A Payment Blockage Period will commence on the receipt by us and the Trustee of written notice of the default, called a "Blockage Notice," from the representative of any Designated Senior Indebtedness specifying an election to effect a Payment Blockage Period and will end 179 days thereafter.

The Payment Blockage Period may be terminated before its expiration:

by written notice from the person or persons who gave the Blockage Notice;

by repayment in full in cash of the Designated Senior Indebtedness with respect to which the Blockage Notice was given; or

if the default giving rise to the Payment Blockage Period is no longer continuing.

Unless the holders of the Designated Senior Indebtedness have accelerated the maturity of the Designated Senior Indebtedness, we may resume payments on the subordinated debt securities after the expiration of the Payment Blockage Period.

Generally, not more than one Blockage Notice may be given in any period of 360 consecutive days. The total number of days during which any one or more Payment Blockage Periods are in effect, however, may not exceed an aggregate of 179 days during any period of 360 consecutive days.

After all Senior Indebtedness is paid in full and until the subordinated debt securities are paid in full, holders of the subordinated debt securities shall be subrogated to the rights of holders of Senior Indebtedness to receive distributions applicable to Senior Indebtedness.

As a result of the subordination provisions described above, in the event of insolvency, the holders of Senior Indebtedness, as well as certain of our general creditors, may recover more, ratably, than the holders of the subordinated debt securities.

### **Book Entry, Delivery and Form**

We may issue debt securities of a series in the form of one or more global certificates deposited with a depository. We expect that The Depository Trust Company, New York, New York, or "DTC," will act as depository. If we issue debt securities of a series in book-entry form, we will issue one or more global certificates that will be deposited with or on behalf of DTC and will not issue physical certificates to each holder. A global security may not be transferred unless it is exchanged in whole or in part for a certificated security, except that DTC, its nominees and their successors may transfer a global security as a whole to one another.

DTC will keep a computerized record of its participants, such as a broker, whose clients have purchased the debt securities. The participants will then keep records of their clients who purchased the debt securities. Beneficial interests in global securities will be shown on, and transfers of beneficial interests in global securities will be made only through, records maintained by DTC and its participants.

DTC advises us that it is:

a limited-purpose trust company organized under the New York Banking Law;

a "banking organization" within the meaning of the New York Banking Law;

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a member of the United States Federal Reserve System;

a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and

a "clearing agency" registered under the provisions of Section 17A of the Securities Exchange Act of 1934.

DTC is owned by a number of its participants and by the New York Stock Exchange, Inc., The American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. The rules that apply to DTC and its participants are on file with the Securities and Exchange Commission.

DTC holds securities that its participants deposit with DTC. DTC also records the settlement among participants of securities transactions, such as transfers and pledges, in deposited securities through computerized records for participants' accounts. This eliminates the need to exchange certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

We will wire principal, premium, if any, and interest payments due on the global securities to DTC's nominee. We, the Trustee and any paying agent will treat DTC's nominee as the owner of the global securities for all purposes. Accordingly, we, the Trustee and any paying agent will have no direct responsibility or liability to pay amounts due on the global securities to owners of beneficial interests in the global securities.

It is DTC's current practice, upon receipt of any payment of principal, premium, if any, or interest, to credit participants' accounts on the payment date according to their respective holdings of beneficial interests in the global securities as shown on DTC's records. In addition, it is DTC's current practice to assign any consenting or voting rights to participants, whose accounts are credited with debt securities on a record date, by using an omnibus proxy.

Payments by participants to owners of beneficial interests in the global securities, as well as voting by participants, will be governed by the customary practices between the participants and the owners of beneficial interests, as is the case with debt securities held for the account of customers registered in "street name." Payments to holders of beneficial interests are the responsibility of the participants and not of DTC, the Trustee or us.

Beneficial interests in global securities will be exchangeable for certificated securities with the same terms in authorized denominations only if:

DTC notifies us that it is unwilling or unable to continue as depository or if DTC ceases to be a clearing agency registered under applicable law and a successor depository is not appointed by us within 90 days; or

we determine not to require all of the debt securities of a series to be represented by a global security and notify the Trustee of our decision.

### **The Trustee**

We may appoint a separate trustee for any series of debt securities. We use the term "Trustee" to refer to the trustee appointed with respect to any such series of debt securities. We may maintain banking and other commercial relationships with the Trustee and its affiliates in the ordinary course of business, and the Trustee may own debt securities.

### **Governing Law**

The Indenture and the debt securities will be governed by, and construed in accordance with, the laws of the State of New York.

### DESCRIPTION OF OUR CLASS B UNITS

We issued Class B units to our general partner, in connection with the acquisition of Williams Pipe Line Company. Our general partner, as the holder of the Class B units, has the same rights as the holders of our common units with respect to distributions, voting and allocations of income, gain, loss and deductions. However, during the period in which any portion of the short-term loan we used to finance the acquisition of Williams Pipe Line Company is outstanding, our general partner will not receive distributions, of any kind with respect to the Class B units. Upon our repayment in full of the short-term loan:

Our general partner will be entitled to receive a distribution of available cash with respect to its Class B units equal to the distributions of available cash that were paid or declared payable to the common units during the term of the short-term loan; and

We, at our option, may redeem the Class B units for cash based on the 15-day average closing price of the common units prior to the redemption date.

In addition, after one year from the date of issuance of the Class B units, upon the request of our general partner and the approval of the holders of a majority of the common units voting at a meeting of unitholders, the Class B units will convert into common units. If the approval of the conversion by the common unitholders is not obtained within 120 days of our general partner's request, our general partner will be entitled to receive distributions with respect to its Class B units, on a per unit basis, equal to 115% of the amount of distributions paid on a common unit. You should read our historical financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations incorporated by reference in this prospectus for additional information regarding the terms of our short-term loan.



## CASH DISTRIBUTIONS

### Distributions of Available Cash

*General.* Within approximately 45 days after the end of each quarter, we will distribute all of our available cash to unitholders of record on the applicable record date.

*Definition of Available Cash.* Available cash generally means, for each fiscal quarter, all cash on hand at the end of the quarter:

less the amount of cash that the general partner determines in its reasonable discretion is necessary or appropriate to:

provide for the proper conduct of our business;

comply with applicable law, any of our debt instruments, or other agreements; or

provide funds for distributions to our unitholders and to our general partner for any one or more of the next four quarters;

plus all cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter. Working capital borrowings are generally borrowings that are made under our credit facility and in all cases are used solely for working capital purposes or to pay distributions to partners.

*Intent to Distribute the Minimum Quarterly Distribution.* We intend to distribute to holders of common units and subordinated units on a quarterly basis at least the minimum quarterly distribution of \$0.525 per quarter or \$2.10 per year to the extent we have sufficient cash from our operations after the establishment of cash reserves and the payment of fees and expenses, including payments to our general partner. However, there is no guarantee that we will pay the minimum quarterly distribution on the common units in any quarter, and we will be prohibited from making any distributions to unitholders if it would cause an event of default, or an event of default is existing, under our credit facility.

### Operating Surplus, Capital Surplus and Adjusted Operating Surplus

*General.* All cash distributed to unitholders will be characterized either as operating surplus or capital surplus. We distribute available cash from operating surplus differently than available cash from capital surplus.

*Definition of Operating Surplus.* For any period, operating surplus generally means:

our cash balance on the closing date of our initial public offering; plus

\$15.0 million; plus

all of our cash receipts since the closing of our initial public offering, excluding cash from borrowings that are not working capital borrowings, sales of equity and debt securities and sales or other dispositions of assets outside the ordinary course of business; plus

working capital borrowings made after the end of a quarter but before the date of determination of operating surplus for the quarter; less

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all of our operating expenditures since the closing of our initial public offering, including the repayment of working capital borrowings, but not the repayment of other borrowings, and including maintenance capital expenditures; less

the amount of cash reserves that the general partner deems necessary or advisable to provide funds for future operating expenditures.

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*Definition of Capital Surplus.* Capital surplus will generally be generated only by:

borrowings other than working capital borrowings;

sales of debt and equity securities; and

sales or other disposition of assets for cash, other than inventory, accounts receivable and other current assets sold in the ordinary course of business or as part of normal retirements or replacements of assets.

*Characterization of Cash Distributions.* We will treat all available cash distributed as coming from operating surplus until the sum of all available cash distributed since we began operations equals the operating surplus as of the most recent date of determination of available cash. We will treat any amount distributed in excess of operating surplus, regardless of its source, as capital surplus. We do not anticipate that we will make any distributions from capital surplus.

*Definition of Adjusted Operating Surplus.* Adjusted operating surplus is intended to reflect the cash generated from operations during a particular period and therefore excludes net increases in working capital borrowings and net drawdowns of reserves of cash generated in prior periods.

Adjusted operating surplus for any period generally means:

operating surplus generated with respect to that period; less

any net increase in working capital borrowings with respect to that period; less

any net reduction in cash reserves for operating expenditures with respect to that period not relating to an operating expenditure made with respect to that period; plus

any net decrease in working capital borrowings with respect to that period; plus

any net increase in cash reserves for operating expenditures with respect to that period required by any debt instrument for the repayment of principal, interest or premium.

### **Subordination Period**

*General.* During the subordination period, the common units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of \$0.525 per unit, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. The purpose of the subordinated units is to increase the likelihood that during the subordination period there will be available cash to be distributed on the common units.

*Definition of Subordination Period.* The subordination period will extend until the first day of any quarter beginning after December 31, 2005 that each of the following tests are met:

distributions of available cash from operating surplus on each of the outstanding common units and subordinated units equaled or exceeded the minimum quarterly distribution for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;

the adjusted operating surplus generated during each of the three immediately preceding non-overlapping four-quarter periods equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units and

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subordinated units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods; and

there are no arrearages in payment of the minimum quarterly distribution on the common units.

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*Early Conversion of Subordinated Units.* Before the end of the subordination period, 50% of the subordinated units, or up to 2,839,847 subordinated units, may convert into common units on a one-for-one basis on the first day after the record date established for the distribution for any quarter ending on or after:

December 31, 2003 with respect to 25% of the subordinated units; and

December 31, 2004 with respect to 25% of the subordinated units.

The early conversions will occur if at the end of the applicable quarter each of the following three tests are met:

distributions of available cash from operating surplus on each of the outstanding common units and subordinated units equaled or exceeded the minimum quarterly distribution for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;

the adjusted operating surplus generated during each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units and subordinated units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods; and

there are no arrearages in payment of the minimum quarterly distribution on the common units.

However, the early conversion of the second 25% of the subordinated units may not occur until at least one year following the early conversion of the first 25% of the subordinated units.

*Effect of Expiration of the Subordination Period.* Upon expiration of the subordination period, each outstanding subordinated unit will convert into one common unit and will then participate pro rata with the other common units in distributions of available cash. In addition, if the unitholders remove our general partner other than for cause and units held by the general partner and its affiliates are not voted in favor of this removal:

the subordination period will end and each subordinated unit will immediately convert into one common unit;

any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and

the general partner will have the right to convert its general partner interest and its incentive distribution rights into common units or to receive cash in exchange for those interests.

### **Distributions of Available Cash from Operating Surplus During the Subordination Period**

We will make distributions of available cash from operating surplus for any quarter during the subordination period in the following manner:

First, 98% to the common unitholders, pro rata, and 2% to the general partner until we distribute for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter;

Second, 98% to the common unitholders, pro rata, and 2% to the general partner until we distribute for each outstanding common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on the common units for

any prior quarters during the subordination period;

Third, 98% to the subordinated unitholders, pro rata, and 2% to the general partner until we distribute for each subordinated unit an amount equal to the minimum quarterly distribution for that quarter; and

Thereafter, in the manner described in " Incentive Distribution Rights" below.

### **Distributions of Available Cash from Operating Surplus After the Subordination Period**

We will make distributions of available cash from operating surplus for any quarter after the subordination period in the following manner:

First, 98% to all unitholders, pro rata, and 2% to the general partner until we distribute for each outstanding unit an amount equal to the minimum quarterly distribution for that quarter; and

Thereafter, in the manner described in " Incentive Distribution Rights" below.

### **Incentive Distribution Rights**

Incentive distribution rights represent the right to receive an increasing percentage of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. Our general partner currently holds the incentive distribution rights, but may transfer these rights separately from its general partner interest, subject to restrictions in the partnership agreement.

If for any quarter:

we have distributed available cash from operating surplus to the common and subordinated unitholders in an amount equal to the minimum quarterly distribution; and

we have distributed available cash from operating surplus on outstanding common units in an amount necessary to eliminate any cumulative arrearages in payment of the minimum quarterly distribution;

then, we will distribute any additional available cash from operating surplus for that quarter among the unitholders and the general partner in the following manner:

First, 98% to all unitholders, pro rata, and 2% to the general partner, until each unitholder receives a total of \$0.578 per unit for that quarter (the "first target distribution");

Second, 85% to all unitholders, pro rata, and 15% to the general partner, until each unitholder receives a total of \$0.656 per unit for that quarter (the "second target distribution");

Third, 75% to all unitholders, pro rata, and 25% to the general partner, until each unitholder receives a total of \$0.788 per unit for that quarter (the "third target distribution"); and

Thereafter, 50% to all unitholders, pro rata, and 50% to the general partner.

In each case, the amount of the target distribution set forth above is exclusive of any distributions to common unitholders to eliminate any cumulative arrearages in payment of the minimum quarterly distribution.

### **Percentage Allocations of Available Cash From Operating Surplus**

The following table illustrates the percentage allocations of the additional available cash from operating surplus between the unitholders and our general partner up to the various target distribution levels. The amounts set forth under "Marginal Percentage Interest in Distributions" are the percentage interests of our general partner and the unitholders in any available cash from operating surplus we distribute up to and including the corresponding amount in the column "Total Quarterly Distribution Target Amount," until available cash from operating surplus we distribute reaches the next target distribution level, if any. The percentage interests shown for the unitholders and the general partner for





the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution.

	Total Quarterly Distribution Target Amount	Marginal Percentage Interest in Distributions	
		Unitholders	General Partner
Minimum Quarterly Distribution	\$0.525	98%	2%
First Target Distribution	up to \$0.578	98%	2%
Second Target Distribution	above \$0.578 up to \$0.656	85%	15%
Third Target Distribution	above \$0.656 up to \$0.788	75%	25%
Thereafter	above \$0.788	50%	50%

### Distributions From Capital Surplus

*How Distributions from Capital Surplus Will Be Made.* We will make distributions of available cash from capital surplus in the following manner:

First, 98% to all unitholders, pro rata, and 2% to the general partner, until we distribute for each common unit, an amount of available cash from capital surplus equal to the initial public offering price;

Second, 98% to the common unitholders, pro rata, and 2% to the general partner, until we distribute for each common unit that was issued in the offering, an amount of available cash from capital surplus equal to any unpaid arrearages in payment of the minimum quarterly distribution on the common units; and

Thereafter, we will make all distributions of available cash from capital surplus as if they were from operating surplus.

*Effect of a Distribution from Capital Surplus.* The partnership agreement treats a distribution of capital surplus as the repayment of the unit price from our initial public offering, which is a return of capital. The initial public offering price less any distributions of capital surplus per unit is referred to as the unrecovered initial unit price. Each time a distribution of capital surplus is made, the minimum quarterly distribution and the target distribution levels will be reduced in the same proportion as the corresponding reduction in the unrecovered initial unit price. Because distributions of capital surplus will reduce the minimum quarterly distribution, after any of these distributions are made, it may be easier for the general partner to receive incentive distributions and for the subordinated units to convert into common units. However, any distribution of capital surplus before the unrecovered initial unit price is reduced to zero cannot be applied to the payment of the minimum quarterly distribution or any arrearages.

Once we distribute capital surplus on a unit issued in this offering in an amount equal to the initial unit price, we will reduce the minimum quarterly distribution and the target distribution levels to zero and we will make all future distributions from operating surplus, with 50% being paid to the holders of units, 48% to the holders of the incentive distribution rights and 2% to the general partner.

### Adjustment to the Minimum Quarterly Distribution and Target Distribution Levels

In addition to adjusting the minimum quarterly distribution and target distribution levels to reflect a distribution of capital surplus, if we combine our units into fewer units or subdivide our units into a greater number of units, we will proportionately adjust:

the minimum quarterly distribution;

target distribution levels;

unrecovered initial unit price;

the number of common units issuable during the subordination period without a unitholder vote; and

the number of common units into which a subordinated unit is convertible.

For example, if a two-for-one split of the common units should occur, the minimum quarterly distribution, the target distribution levels and the unrecovered initial unit price would each be reduced to 50% of its initial level. We will not make any adjustment by reason of the issuance of additional units for cash or property.

In addition, if legislation is enacted or if existing law is modified or interpreted in a manner that causes us to become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes, we will reduce the minimum quarterly distribution and the target distribution levels by multiplying the same by one minus the sum of the highest marginal federal corporate income tax rate that could apply and any increase in the effective overall state and local income tax rates. For example, if we became subject to a maximum marginal federal, and effective state and local income tax rate of 38%, then the minimum quarterly distribution and the target distributions levels would each be reduced to 62% of their previous levels.

### **Distributions of Cash Upon Liquidation**

If we dissolve in accordance with the partnership agreement, we will sell or otherwise dispose of our assets in a process called a liquidation. We will first apply the proceeds of liquidation to the payment of our creditors. We will distribute any remaining proceeds to the unitholders and the general partner, in accordance with their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of our assets in liquidation.

The allocations of gain and loss upon liquidation are intended, to the extent possible, to entitle the holders of outstanding common units to a preference over the holders of outstanding subordinated units upon the liquidation of Williams Energy Partners, to the extent required to permit common unitholders to receive their unrecovered initial unit price plus the minimum quarterly distribution for the quarter during which liquidation occurs plus any unpaid arrearages in payment of the minimum quarterly distribution on the common units. However, there may not be sufficient gain upon liquidation of Williams Energy Partners to enable the holder of common units to fully recover all of these amounts, even though there may be cash available for distribution to the holders of subordinated units. Any further net gain recognized upon liquidation will be allocated in a manner that takes into account the incentive distribution rights of the general partner.

*Manner of Adjustments for Gain.* The manner of the adjustment is set forth in the partnership agreement. If our liquidation occurs before the end of the subordination period, we will allocate any gain to the partners in the following manner:

*First*, to the general partner and the holders of units who have negative balances in their capital accounts to the extent of and in proportion to those negative balances;

*Second*, 98% to the common unitholders, pro rata, and 2% to the general partner, until the capital account for each common unit is equal to the sum of:

- (1) the unrecovered initial unit price for that common unit; plus
- (2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs; plus
- (3) any unpaid arrearages in payment of the minimum quarterly distribution on that common unit;

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*Third*, 98% to the subordinated unitholders, pro rata, and 2% to the general partner, until the capital account for each subordinated unit is equal to the sum of:

- (1) the unrecovered initial unit price on that subordinated unit; and
- (2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs;

*Fourth*, 98% to all unitholders, pro rata, and 2% to the general partner, pro rata, until we allocate under this paragraph an amount per unit equal to:

- (1) the sum of the excess of the first target distribution per unit over the minimum quarterly distribution per unit for each quarter of our existence; less
- (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the minimum quarterly distribution per unit that we distributed 98% to the units, pro rata, and 2% to the general partner, pro rata, for each quarter of our existence;

*Fifth*, 85% to all unitholders, pro rata, and 15% to the general partner, until we allocate under this paragraph an amount per unit equal to:

- (1) the sum of the excess of the second target distribution per unit over the first target distribution per unit for each quarter of our existence; less
- (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the first target distribution per unit that we distributed 85% to the unitholders, pro rata, and 15% to the general partner for each quarter of our existence;

*Sixth*, 75% to all unitholders, pro rata, and 25% to the general partner, until we allocate under this paragraph an amount per unit equal to:

- (1) the sum of the excess of the third target distribution per unit over the second target distribution per unit for each quarter of our existence; less
- (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the second target distribution per unit that we distributed 75% to the unitholders, pro rata, and 25% to the general partner for each quarter of our existence;

*Thereafter*, 50% to all unitholders, pro rata, and 50% to the general partner.

If the liquidation occurs after the end of the subordination period, the distinction between common units and subordinated units will disappear, so that clause (3) of the second bullet point above and all of the third above bullet point will no longer be applicable.

*Manner of Adjustments for Losses.* Upon our liquidation, we will generally allocate any loss to the general partner and the unitholders in the following manner:

*First*, 98% to holders of subordinated units in proportion to the positive balances in their capital accounts and 2% to the general partner until the capital accounts of the holders of the subordinated units have been reduced to zero;

*Second*, 98% to the holders of common units in proportion to the positive balances in their capital accounts and 2% to the general partner until the capital accounts of the common unitholders have been reduced to zero; and

*Thereafter, 100% to the general partner.*

If the liquidation occurs after the end of the subordination period, the distinction between common units and subordinated units will disappear, so that all of the first bullet point above will no longer be applicable.

*Adjustments to Capital Accounts.* We will make adjustments to capital accounts upon the issuance of additional units. In doing so, we will allocate any unrealized and, for tax purposes, unrecognized gain or loss resulting from the adjustments to the unitholders and the general partner in the same manner as we allocate gain or loss upon liquidation. In the event that we make positive adjustments to the capital accounts upon the issuance of additional units, we will allocate any later negative adjustments to the capital accounts resulting from the issuance of additional units or upon our liquidation in a manner which results, to the extent possible, in the general partner's capital account balances equaling the amount which they would have been if no earlier positive adjustments to the capital accounts had been made.

## MATERIAL TAX CONSEQUENCES

This section is a summary of all the material tax consequences that may be relevant to prospective unitholders who are individual citizens or residents of the United States and, unless otherwise noted in the following discussion, is the opinion of Vinson & Elkins L.L.P., special counsel to the general partner and us, insofar as it relates to matters of United States federal income tax law and legal conclusions with respect to those matters. This section is based upon current provisions of the Internal Revenue Code, existing and proposed regulations and current administrative rulings and court decisions, all of which are subject to change. Later changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to "us" or "we" are references to Williams Energy Partners and the operating partnership.

No attempt has been made in this section to comment on all federal income tax matters affecting us or the unitholders. Moreover, the discussion focuses on unitholders who are individual citizens or residents of the United States and has only limited application to corporations, estates, trusts, nonresident aliens or other unitholders subject to specialized tax treatment, such as tax-exempt institutions, foreign persons, individual retirement accounts (IRAs), real estate investment trusts (REITs) or mutual funds. Accordingly, we recommend that each prospective unitholder consult, and depend on, his own tax advisor in analyzing the federal, state, local and foreign tax consequences particular to him of the ownership or disposition of common units.

All statements as to matters of law and legal conclusions, but not as to factual matters, contained in this section, unless otherwise noted, are the opinion of Vinson & Elkins L.L.P. and some are based on the accuracy of the representations we make.

No ruling has been or will be requested from the IRS regarding any matter affecting us or prospective unitholders. An opinion of counsel represents only that counsel's best legal judgment and does not bind the IRS or the courts. Accordingly, the opinions and statements made here may not be sustained by a court if contested by the IRS. Any contest of this sort with the IRS may materially and adversely impact the market for the common units and the prices at which common units trade. In addition, the costs of any contest with the IRS will be borne directly or indirectly by the unitholders and the general partner. Furthermore, the tax treatment of us, or of an investment in us, may be significantly modified by future legislative or administrative changes or court decisions. Any modifications may or may not be retroactively applied.

For the reasons described below, Vinson & Elkins L.L.P. has not rendered an opinion with respect to the following specific federal income tax issues:

- (1) the treatment of a unitholder whose common units are loaned to a short seller to cover a short sale of common units (please read " Tax Consequences of Unit Ownership Treatment of Short Sales");
- (2) whether our monthly convention for allocating taxable income and losses is permitted by existing Treasury regulations (please read " Disposition of Common Units Allocations Between Transferors and Transferees"); and
- (3) whether our method for depreciating Section 743 adjustments is sustainable (please read " Tax Consequences of Unit Ownership Section 754 Election").

### Partnership Status

A partnership is not a taxable entity and incurs no federal income tax liability. Instead, each partner of a partnership is required to take into account his share of items of income, gain, loss and deduction of the partnership in computing his federal income tax liability, regardless of whether cash distributions are made to him by the partnership. Distributions by a partnership to a partner are generally not taxable unless the amount of cash distributed is in excess of the partner's adjusted basis in his partnership interest.

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No ruling has been or will be sought from the IRS and the IRS has made no determination as to our status or the status of the operating partnership as partnerships for federal income tax purposes or whether our operations generate "qualifying income" under Section 7704 of the Code. Instead, we will rely on the opinion of Vinson & Elkins L.L.P. that, based upon the Internal Revenue Code, its regulations, published revenue rulings and court decisions and the representations described below, Williams Energy Partners and the operating partnership are and will be classified as partnerships for federal income tax purposes.

In rendering its opinion, Vinson & Elkins L.L.P. has relied on factual representations made by us and the general partner. The representations made by us and our general partner upon which counsel has relied are:

- (a) Neither we nor the operating partnership has elected or will elect to be treated as a corporation; and
- (b) For each taxable year, more than 90% of our gross income has been and will be income that our counsel has opined or will opine is "qualifying income" within the meaning of Section 7704(d) of the Internal Revenue Code.

Section 7704 of the Internal Revenue Code provides that publicly-traded partnerships will, as a general rule, be taxed as corporations. However, an exception, referred to as the "Qualifying Income Exception," exists with respect to publicly-traded partnerships of which 90% or more of the gross income for every taxable year consists of "qualifying income." Qualifying income includes income and gains derived from the transportation, storage and processing of crude oil, natural gas and products thereof and fertilizer. Other types of qualifying income include interest other than from a financial business, dividends, gains from the sale of real property and gains from the sale or other disposition of assets held for the production of income that otherwise constitutes qualifying income. We estimate that less than 7% of our current income is not qualifying income; however, this estimate could change from time to time. Based upon and subject to this estimate, the factual representations made by us and the general partner and a review of the applicable legal authorities, Vinson & Elkins L.L.P. is of the opinion that at least 90% of our current gross income constitutes qualifying income.

If we fail to meet the Qualifying Income Exception, other than a failure which is determined by the IRS to be inadvertent and which is cured within a reasonable time after discovery, we will be treated as if we had transferred all of our assets, subject to liabilities, to a newly formed corporation, on the first day of the year in which we fail to meet the Qualifying Income Exception, in return for stock in that corporation, and then distributed that stock to the unitholders in liquidation of their interests in us. This contribution and liquidation should be tax-free to unitholders and us so long as we, at that time, do not have liabilities in excess of the tax basis of our assets. Thereafter, we would be treated as a corporation for federal income tax purposes.

If we were taxable as a corporation in any taxable year, either as a result of a failure to meet the Qualifying Income Exception or otherwise, our items of income, gain, loss and deduction would be reflected only on our separate tax returns rather than being passed through to the unitholders, and our net income would be taxed to us at corporate rates. In addition, any distribution made to a unitholder would be treated as either taxable dividend income, to the extent of Williams Energy Partners' current or accumulated earnings and profits, or, in the absence of earnings and profits, a nontaxable return of capital, to the extent of the unitholder's tax basis in his common units, or taxable capital gain, after the unitholder's tax basis in his common units is reduced to zero. Accordingly, taxation as a corporation would result in a material reduction in a unitholder's cash flow and after-tax return and thus would likely result in a substantial reduction of the value of the units.

The remainder of this section is based on Vinson & Elkins L.L.P.'s opinion that we and the operating partnership will be classified as partnerships for federal income tax purposes.



### Limited Partner Status

Unitholders who have become limited partners of Williams Energy Partners will be treated as partners of Williams Energy Partners for federal income tax purposes. Also:

- (a) assignees who have executed and delivered transfer applications, and are awaiting admission as limited partners, and
- (b) unitholders whose common units are held in street name or by a nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their common units,

will be treated as partners of Williams Energy Partners for federal income tax purposes. As there is no direct authority addressing assignees of common units who are entitled to execute and deliver transfer applications and become entitled to direct the exercise of attendant rights, but who fail to execute and deliver transfer applications, counsel's opinion does not extend to these persons. Furthermore, a purchaser or other transferee of common units who does not execute and deliver a transfer application may not receive some federal income tax information or reports furnished to record holders of common units unless the common units are held in a nominee or street name account and the nominee or broker has executed and delivered a transfer application for those common units.

A beneficial owner of common units whose units have been transferred to a short seller to complete a short sale would appear to lose his status as a partner with respect to those units for federal income tax purposes. Please read " Tax Consequences of Unit Ownership Treatment of Short Sales."

Income, gain, deductions or losses would not appear to be reportable by a unitholder who is not a partner for federal income tax purposes, and any cash distributions received by a unitholder who is not a partner for federal income tax purposes would therefore be fully taxable as ordinary income. These holders should consult their own tax advisors with respect to their status as partners in Williams Energy Partners for federal income tax purposes.

### Tax Consequences of Unit Ownership

*Flow-through of Taxable Income.* We will not pay any federal income tax. Instead, each unitholder will be required to report on his income tax return his share of our income, gains, losses and deductions without regard to whether corresponding cash distributions are received by him. Consequently, we may allocate income to a unitholder even if he has not received a cash distribution. Each unitholder will be required to include in income his allocable share of our income, gains, losses and deductions for our taxable year ending with or within his taxable year.

*Treatment of Distributions.* Distributions by us to a unitholder generally will not be taxable to the unitholder for federal income tax purposes to the extent of his tax basis in his common units immediately before the distribution. Our cash distributions in excess of a unitholder's tax basis generally will be considered to be gain from the sale or exchange of the common units, taxable in accordance with the rules described under " Disposition of Common Units" below. Any reduction in a unitholder's share of our liabilities for which no partner, including the general partner, bears the economic risk of loss, known as "nonrecourse liabilities," will be treated as a distribution of cash to that unitholder. To the extent our distributions cause a unitholder's "at risk" amount to be less than zero at the end of any taxable year, he must recapture any losses deducted in previous years. Please read " Limitations on Deductibility of Losses."

A decrease in a unitholder's percentage interest in us because of our issuance of additional common units will decrease his share of our nonrecourse liabilities, and thus will result in a corresponding deemed distribution of cash. A non-pro rata distribution of money or property may result in ordinary income to a unitholder, regardless of his tax basis in his common units, if the distribution reduces the unitholder's share of our "unrealized receivables," including depreciation recapture, and/or substantially appreciated "inventory items," both as defined in the Internal Revenue Code, and collectively, "Section 751 Assets." To that extent, he will be treated as having been

distributed his proportionate share of the Section 751 Assets and having exchanged those assets with us in return for the non-pro rata portion of the actual distribution made to him. This latter deemed exchange will generally result in the unitholder's realization of ordinary income. That income will equal the excess of (1) the non-pro rata portion of that distribution over (2) the unitholder's tax basis for the share of Section 751 Assets deemed relinquished in the exchange.

*Basis of Common Units.* A unitholder's initial tax basis for his common units will be the amount he paid for the common units plus his share of our nonrecourse liabilities. That basis will be increased by his share of our income and by any increases in his share of our nonrecourse liabilities. That basis will be decreased, but not below zero, by distributions from us, by the unitholder's share of our losses, by any decreases in his share of our nonrecourse liabilities and by his share of our expenditures that are not deductible in computing taxable income and are not required to be capitalized. A limited partner will have no share of our debt which is recourse to the general partner, but will have a share, generally based on his share of profits, of our nonrecourse liabilities. Please read " Disposition of Common Units Recognition of Gain or Loss."

*Limitations on Deductibility of Losses.* The deduction by a unitholder of his share of our losses will be limited to the tax basis in his units and, in the case of an individual unitholder or a corporate unitholder, if more than 50% of the value of the corporate unitholder's stock is owned directly or indirectly by five or fewer individuals or some tax-exempt organizations, to the amount for which the unitholder is considered to be "at risk" with respect to our activities, if that is less than his tax basis. A unitholder must recapture losses deducted in previous years to the extent that distributions cause his at risk amount to be less than zero at the end of any taxable year. Losses disallowed to a unitholder or recaptured as a result of these limitations will carry forward and will be allowable to the extent that his tax basis or at risk amount, whichever is the limiting factor, is subsequently increased. Upon the taxable disposition of a unit, any gain recognized by a unitholder can be offset by losses that were previously suspended by the at risk limitation but may not be offset by losses suspended by the basis limitation. Any excess loss above that gain previously suspended by the at risk or basis limitations is no longer utilizable.

In general, a unitholder will be at risk to the extent of the tax basis of his units, excluding any portion of that basis attributable to his share of our nonrecourse liabilities, reduced by any amount of money he borrows to acquire or hold his units, if the lender of those borrowed funds owns an interest in us, is related to the unitholder or can look only to the units for repayment. A unitholder's at risk amount will increase or decrease as the tax basis of the unitholder's units increases or decreases, other than tax basis increases or decreases attributable to increases or decreases in his share of our nonrecourse liabilities.

The passive loss limitations generally provide that individuals, estates, trusts and some closely-held corporations and personal service corporations can deduct losses from passive activities, which are generally activities in which the taxpayer does not materially participate, only to the extent of the taxpayer's income from those passive activities. The passive loss limitations are applied separately with respect to each publicly-traded partnership. Consequently, any losses we generate will only be available to offset our passive income generated in the future and will not be available to offset income from other passive activities or investments, including our investments or investments in other publicly-traded partnerships, or salary or active business income. Passive losses that are not deductible because they exceed a unitholder's share of income we generate may be deducted in full when he disposes of his entire investment in us in a fully taxable transaction with an unrelated party. The passive activity loss rules are applied after other applicable limitations on deductions, including the at risk rules and the basis limitation.

A unitholder's share of our net income may be offset by any suspended passive losses, but it may not be offset by any other current or carryover losses from other passive activities, including those attributable to other publicly-traded partnerships.

*Limitations on Interest Deductions.* The deductibility of a non-corporate taxpayer's "investment interest expense" is generally limited to the amount of that taxpayer's "net investment income." The IRS has indicated that net passive income from a publicly-traded partnership constitutes investment income for purposes of the limitations on the deductibility of investment interest. In addition, the unitholder's share of our portfolio income will be treated as investment income. Investment interest expense includes:

interest on indebtedness properly allocable to property held for investment;

our interest expense attributed to portfolio income; and

the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income.

The computation of a unitholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a unit. Net investment income includes gross income from property held for investment and amounts treated as portfolio income under the passive loss rules, less deductible expenses, other than interest, directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment.

*Entity-Level Collections.* If we are required or elect under applicable law to pay any federal, state or local income tax on behalf of any unitholder or the general partner or any former unitholder, we are authorized to pay those taxes from our funds. That payment, if made, will be treated as a distribution of cash to the partner on whose behalf the payment was made. If the payment is made on behalf of a person whose identity cannot be determined, we are authorized to treat the payment as a distribution to all current unitholders. We are authorized to amend the partnership agreement in the manner necessary to maintain uniformity of intrinsic tax characteristics of units and to adjust later distributions, so that after giving effect to these distributions, the priority and characterization of distributions otherwise applicable under the partnership agreement is maintained as nearly as is practicable. Payments by us as described above could give rise to an overpayment of tax on behalf of an individual partner in which event the partner would be required to file a claim in order to obtain a credit or refund.

*Allocation of Income, Gain, Loss and Deduction.* In general, if we have a net profit, our items of income, gain, loss and deduction will be allocated among the general partner and the unitholders in accordance with their percentage interests in us. At any time that distributions are made to the common units in excess of distributions to the subordinated units, or incentive distributions are made to the general partner, gross income will be allocated to the recipients to the extent of these distributions. If we have a net loss for the entire year, that loss will be allocated first to the general partner and the unitholders in accordance with their percentage interests in us to the extent of their positive capital accounts and, second, to the general partner.

Specified items of our income, gain, loss and deduction will be allocated to account for the difference between the tax basis and fair market value of our assets at the time of an offering, referred to in this discussion as "Contributed Property." The effect of these allocations to a unitholder purchasing common units in our offering will be essentially the same as if the tax basis of our assets were equal to their fair market value at the time of the offering. In addition, items of recapture income will be allocated to the extent possible to the partner who was allocated the deduction giving rise to the treatment of that gain as recapture income in order to minimize the recognition of ordinary income by some unitholders. Finally, although we do not expect that our operations will result in the creation of negative capital accounts, if negative capital accounts nevertheless result, items of our income and gain will be allocated in an amount and manner to eliminate the negative balance as quickly as possible.

An allocation of items of our income, gain, loss or deduction, other than an allocation required by the Internal Revenue Code to eliminate the difference between a partner's "book" capital account, credited with the fair market value of Contributed Property, and "tax" capital account, credited with the tax basis of Contributed Property, referred to in this discussion as the "Book-Tax Disparity", will

generally be given effect for federal income tax purposes in determining a partner's share of an item of income, gain, loss or deduction only if the allocation has substantial economic effect. In any other case, a partner's share of an item will be determined on the basis of his interest in us, which will be determined by taking into account all the facts and circumstances, including his relative contributions to us, the interests of all the partners in profits and losses, the interest of all the partners in cash flow and other nonliquidating distributions and rights of all the partners to distributions of capital upon liquidation.

Vinson & Elkins L.L.P. is of the opinion that, with the exception of the issues described in " Tax Consequences of Unit Ownership Section 754 Election" and " Disposition of Common Units Allocations Between Transferors and Transferees," allocations under our partnership agreement will be given effect for federal income tax purposes in determining a partner's share of an item of income, gain, loss or deduction.

*Treatment of Short Sales.* A unitholder whose units are loaned to a "short seller" to cover a short sale of units may be considered as having disposed of those units. If so, he would no longer be a partner for those units during the period of the loan and may recognize gain or loss from the disposition. As a result, during this period:

any of our income, gain, loss or deduction with respect to those units would not be reportable by the unitholder;

any cash distributions received by the unitholder as to those units would be fully taxable; and

all of these distributions would appear to be ordinary income.

Vinson & Elkins L.L.P. has not rendered an opinion regarding the treatment of a unitholder where common units are loaned to a short seller to cover a short sale of common units; therefore, unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller should modify any applicable brokerage account agreements to prohibit their brokers from borrowing their units. The IRS has announced that it is actively studying issues relating to the tax treatment of short sales of partnership interests. Please also read " Disposition of Common Units Recognition of Gain or Loss."

*Alternative Minimum Tax.* Each unitholder will be required to take into account his distributive share of any items of our income, gain, loss or deduction for purposes of the alternative minimum tax. The current minimum tax rate for noncorporate taxpayers is 26% on the first \$175,000 of alternative minimum taxable income in excess of the exemption amount and 28% on any additional alternative minimum taxable income. Prospective unitholders should consult with their tax advisors as to the impact of an investment in units on their liability for the alternative minimum tax.

*Tax Rates.* In general, the highest effective United States federal income tax rate for individuals for 2002 is 38.6% and the maximum United States federal income tax rate for net capital gains of an individual for 2002 is 20% if the asset disposed of was held for more than 12 months at the time of disposition.

*Section 754 Election.* We have made the election permitted by Section 754 of the Internal Revenue Code. That election is irrevocable without the consent of the IRS. The election will generally permit us to adjust a common unit purchaser's tax basis in our assets ("inside basis") under Section 743(b) of the Internal Revenue Code to reflect his purchase price. This election does not apply to a person who purchases common units directly from us. The Section 743(b) adjustment belongs to the purchaser and not to other partners. For purposes of this discussion, a partner's inside basis in our assets will be considered to have two components: (1) his share of our tax basis in our assets ("common basis") and (2) his Section 743(b) adjustment to that basis.

Treasury regulations under Section 743 of the Internal Revenue Code require, if the remedial allocation method is adopted (which we have adopted), a portion of the Section 743(b) adjustment attributable to recovery property to be depreciated over the remaining cost recovery period for the Section 704(c) built-in gain. Under Treasury Regulation Section 1.167(c)-1(a)(6), a

Section 743(b) adjustment attributable to property subject to depreciation under Section 167 of the Internal Revenue Code rather than cost recovery deductions under Section 168 is generally required to be depreciated using either the straight-line method or the 150% declining balance method. Under our partnership agreement, the general partner is authorized to take a position to preserve the uniformity of units even if that position is not consistent with these Treasury regulations. Please read " Tax Treatment of Operations Uniformity of Units."

Although Vinson & Elkins L.L.P. is unable to opine as to the validity of this approach because there is no clear authority on this issue, we intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the common basis of the property, or treat that portion as non-amortizable to the extent attributable to property the common basis of which is not amortizable. This method is consistent with the regulations under Section 743 but is arguably inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6), which is not expected to directly apply to a material portion of our assets. To the extent this Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Treasury regulations and legislative history. If we determine that this position cannot reasonably be taken, we may take a depreciation or amortization position under which all purchasers acquiring units in the same month would receive depreciation or amortization, whether attributable to common basis or a Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our assets. This kind of aggregate approach may result in lower annual depreciation or amortization deductions than would otherwise be allowable to some unitholders. Please read " Tax Treatment of Operations Uniformity of Units."

A Section 754 election is advantageous if the transferee's tax basis in his units is higher than the units' share of the aggregate tax basis of our assets immediately prior to the transfer. In that case, as a result of the election, the transferee would have, among other items, a greater amount of depreciation and depletion deductions and his share of any gain on a sale of our assets would be less. Conversely, a Section 754 election is disadvantageous if the transferee's tax basis in his units is lower than those units' share of the aggregate tax basis of our assets immediately prior to the transfer. Thus, the fair market value of the units may be affected either favorably or unfavorably by the election.

The calculations involved in the Section 754 election are complex and will be made on the basis of assumptions as to the value of our assets and other matters. For example, the allocation of the Section 743(b) adjustment among our assets must be made in accordance with the Internal Revenue Code. The IRS could seek to reallocate some or all of any Section 743(b) adjustment we allocated to our tangible assets to goodwill instead. Goodwill, as an intangible asset, is generally amortizable over a longer period of time or under a less accelerated method than our tangible assets. We cannot assure you that the determinations we make will not be successfully challenged by the IRS and that the deductions resulting from them will not be reduced or disallowed altogether. Should the IRS require a different basis adjustment to be made, and should, in our opinion, the expense of compliance exceed the benefit of the election, we may seek permission from the IRS to revoke our Section 754 election. If permission is granted, a subsequent purchaser of units may be allocated more income than he would have been allocated had the election not been revoked.

## **Tax Treatment of Operations**

*Accounting Method and Taxable Year.* We use the year ending December 31 as our taxable year and the accrual method of accounting for federal income tax purposes. Each unitholder will be required to include in income his share of our income, gain, loss and deduction for our taxable year ending within or with his taxable year. In addition, a unitholder who has a taxable year ending on a date other than December 31 and who disposes of all of his units following the close of our taxable year but before the close of his taxable year must include his share of our income, gain, loss and deduction in income for his taxable year, with the result that he will be required to include in income for his taxable year his share of more than one year of our income, gain, loss and deduction. Please read " Disposition of Common Units Allocations Between Transferors and Transferees."

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*Tax Basis, Depreciation and Amortization.* The tax basis of our assets will be used for purposes of computing depreciation and cost recovery deductions and, ultimately, gain or loss on the disposition of these assets. The federal income tax burden associated with the difference between the fair market value of our assets and their tax basis immediately prior to an offering will be borne by the general partner, its affiliates and our other unitholders as of that time. Please read " Allocation of Income, Gain, Loss and Deduction."

To the extent allowable, we may elect to use the depreciation and cost recovery methods that will result in the largest deductions being taken in the early years after assets are placed in service. We are not entitled to any amortization deductions with respect to any goodwill conveyed to us on formation. Property we subsequently acquire or construct may be depreciated using accelerated methods permitted by the Internal Revenue Code.

If we dispose of depreciable property by sale, foreclosure, or otherwise, all or a portion of any gain, determined by reference to the amount of depreciation previously deducted and the nature of the property, may be subject to the recapture rules and taxed as ordinary income rather than capital gain. Similarly, a partner who has taken cost recovery or depreciation deductions with respect to property we own will likely be required to recapture some or all of those deductions as ordinary income upon a sale of his interest in us. Please read " Tax Consequences of Unit Ownership Allocation of Income, Gain, Loss and Deduction" and " Disposition of Common Units Recognition of Gain or Loss."

The costs incurred in selling our units (called "syndication expenses") must be capitalized and cannot be deducted currently, ratably or upon our termination. There are uncertainties regarding the classification of costs as organization expenses, which we may amortize, and as syndication expenses, which we may not amortize. The underwriting discounts and commissions we incur will be treated as syndication expenses.

*Valuation and Tax Basis of Our Properties.* The federal income tax consequences of the ownership and disposition of units will depend in part on our estimates of the relative fair market values, and the initial tax bases, of our assets. Although we may from time to time consult with professional appraisers regarding valuation matters, we will make many of the relative fair market value estimates ourselves. These estimates of basis are subject to challenge and will not be binding on the IRS or the courts. If the estimates of fair market value or basis are later found to be incorrect, the character and amount of items of income, gain, loss or deductions previously reported by unitholders might change, and unitholders might be required to adjust their tax liability for prior years and incur interest and penalties with respect to those adjustments.

### **Disposition of Common Units**

*Recognition of Gain or Loss.* Gain or loss will be recognized on a sale of units equal to the difference between the amount realized and the unitholder's tax basis for the units sold. A unitholder's amount realized will be measured by the sum of the cash or the fair market value of other property he receives plus his share of our nonrecourse liabilities. Because the amount realized includes a unitholder's share of our nonrecourse liabilities, the gain recognized on the sale of units could result in a tax liability in excess of any cash received from the sale.

Prior distributions from us in excess of cumulative net taxable income for a common unit that decreased a unitholder's tax basis in that common unit will, in effect, become taxable income if the common unit is sold at a price greater than the unitholder's tax basis in that common unit, even if the price received is less than his original cost.

Except as noted below, gain or loss recognized by a unitholder, other than a "dealer" in units, on the sale or exchange of a unit held for more than one year will generally be taxable as capital gain or loss. Capital gain recognized by an individual on the sale of units held more than 12 months will generally be taxed at a maximum rate of 20%. A portion of this gain or loss, which will likely be substantial, however, will be separately computed and taxed as ordinary income or loss under Section 751 of the Internal Revenue Code to the extent attributable to assets giving rise to depreciation recapture or other "unrealized receivables" or to "inventory items" we own. The term "unrealized

receivables" includes potential recapture items, including depreciation recapture. Ordinary income attributable to unrealized receivables, inventory items and depreciation recapture may exceed net taxable gain realized upon the sale of a unit and may be recognized even if there is a net taxable loss realized on the sale of a unit. Thus, a unitholder may recognize both ordinary income and a capital loss upon a sale of units. Net capital loss may offset capital gains and no more than \$3,000 of ordinary income, in the case of individuals, and may only be used to offset capital gain in the case of corporations.

The IRS has ruled that a partner who acquires interests in a partnership in separate transactions must combine those interests and maintain a single adjusted tax basis for all those interests. Upon a sale or other disposition of less than all of those interests, a portion of that tax basis must be allocated to the interests sold using an "equitable apportionment" method. Treasury regulations allow a selling unitholder who can identify common units transferred with an ascertainable holding period to elect to use the actual holding period of the common units transferred. Thus, according to the ruling, a common unitholder will be unable to select high or low basis common units to sell as would be the case with corporate stock, but, according to the regulations, may designate specific common units sold for purposes of determining the holding period of units transferred. A unitholder electing to use the actual holding period of common units transferred must consistently use that identification method for all subsequent sales or exchanges of common units. A unitholder considering the purchase of additional units or a sale of common units purchased in separate transactions should consult his tax advisor as to the possible consequences of this ruling and application of the Treasury regulations.

Specific provisions of the Internal Revenue Code affect the taxation of some financial products and securities, including partnership interests, by treating a taxpayer as having sold an "appreciated" partnership interest, one in which gain would be recognized if it were sold, assigned or terminated at its fair market value, if the taxpayer or related persons enter(s) into:

a short sale;

an offsetting notional principal contract; or

a futures or forward contract with respect to the partnership interest or substantially identical property.

Moreover, if a taxpayer has previously entered into a short sale, an offsetting notional principal contract or a futures or forward contract with respect to the partnership interest, the taxpayer will be treated as having sold that position if the taxpayer or a related person then acquires the partnership interest or substantially identical property. The Secretary of Treasury is also authorized to issue regulations that treat a taxpayer that enters into transactions or positions that have substantially the same effect as the preceding transactions as having constructively sold the financial position.

*Allocations Between Transferors and Transferees.* In general, our taxable income and losses will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the unitholders in proportion to the number of units owned by each of them as of the opening of the applicable exchange on the first business day of the month (the "Allocation Date"). However, gain or loss realized on a sale or other disposition of our assets other than in the ordinary course of business will be allocated among the unitholders on the Allocation Date in the month in which that gain or loss is recognized. As a result, a unitholder transferring units may be allocated income, gain, loss and deduction realized after the date of transfer.

The use of this method may not be permitted under existing Treasury regulations. Accordingly, Vinson & Elkins L.L.P. is unable to opine on the validity of this method of allocating income and deductions between unitholders. If this method is not allowed under the Treasury regulations, or only applies to transfers of less than all of the unitholder's interest, our taxable income or losses might be reallocated among the unitholders. We are authorized to revise our method of allocation between unitholders to conform to a method permitted under future Treasury regulations.

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A unitholder who owns units at any time during a quarter and who disposes of them prior to the record date set for a cash distribution for that quarter will be allocated items of our income, gain, loss and deductions attributable to that quarter but will not be entitled to receive that cash distribution.

*Notification Requirements.* A purchaser of units from another unitholder is required to notify us in writing of that purchase within 30 days after the purchase. We are required to notify the IRS of that transaction and to furnish specified information to the transferor and transferee. However, these reporting requirements do not apply to a sale by an individual who is a citizen of the United States and who effects the sale or exchange through a broker.

*Constructive Termination.* We will be considered to have been terminated for tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. A constructive termination results in the closing of our taxable year for all unitholders. In the case of a unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of our taxable year may result in more than 12 months of our taxable income or loss being includable in his taxable income for the year of termination. We would be required to make new tax elections after a termination, including a new election under Section 754 of the Internal Revenue Code, and a termination would result in a deferral of our deductions for depreciation. A termination could also result in penalties if we were unable to determine that the termination had occurred. Moreover, a termination might either accelerate the application of, or subject us to, any tax legislation enacted before the termination.

### Uniformity of Units

Because we cannot match transferors and transferees of units, we must maintain uniformity of the economic and tax characteristics of the units to a purchaser of these units. In the absence of uniformity, we may be unable to completely comply with a number of federal income tax requirements, both statutory and regulatory. A lack of uniformity can result from a literal application of Treasury Regulation Section 1.167(c)-1(a)(6). Any non-uniformity could have a negative impact on the value of the units. Please read " Tax Consequences of Unit Ownership Section 754 Election."

We intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the common basis of that property, or treat that portion as nonamortizable, to the extent attributable to property the common basis of which is not amortizable, consistent with the regulations under Section 743, even though that position may be inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6) which is not expected to directly apply to a material portion of our assets. Please read " Tax Consequences of Unit Ownership Section 754 Election." To the extent that the Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Treasury regulations and legislative history. If we determine that this position cannot reasonably be taken, we may adopt a depreciation and amortization position under which all purchasers acquiring units in the same month would receive depreciation and amortization deductions, whether attributable to a common basis or Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our property. If this position is adopted, it may result in lower annual depreciation and amortization deductions than would otherwise be allowable to some unitholders and risk the loss of depreciation and amortization deductions not taken in the year that these deductions are otherwise allowable. This position will not be adopted if we determine that the loss of depreciation and amortization deductions will have a material adverse effect on the unitholders. If we choose not to utilize this aggregate method, we may use any other reasonable depreciation and amortization method to preserve the uniformity of the intrinsic tax characteristics of any units that would not have a material adverse effect on the unitholders. The IRS may challenge any method of depreciating the Section 743(b) adjustment described in this paragraph. If this challenge were sustained, the uniformity of units might be affected, and the gain from the sale of units might be increased without the benefit of additional deductions. Please read " Disposition of Common Units Recognition of Gain or Loss."



## Tax-Exempt Organizations and Other Investors

Ownership of units by employee benefit plans, other tax-exempt organizations, non-resident aliens, foreign corporations, other foreign persons and regulated investment companies raises issues unique to those investors and, as described below, may have substantially adverse tax consequences to them.

Employee benefit plans and most other organizations exempt from federal income tax, including individual retirement accounts and other retirement plans, are subject to federal income tax on unrelated business taxable income. Virtually all of our income allocated to a unitholder which is a tax-exempt organization will be unrelated business taxable income and will be taxable to them.

A regulated investment company or "mutual fund" is required to derive 90% or more of its gross income from interest, dividends and gains from the sale of stocks or securities or foreign currency or specified related sources. It is not anticipated that any significant amount of our gross income will include that type of income.

Non-resident aliens and foreign corporations, trusts or estates that own units will be considered to be engaged in business in the United States because of the ownership of units. As a consequence they will be required to file federal tax returns to report their share of our income, gain, loss or deduction and pay federal income tax at regular rates on their share of our net income or gain. And, under rules applicable to publicly traded partnerships, we will withhold tax, at the highest effective rate applicable to individuals, from cash distributions made quarterly to foreign unitholders. Each foreign unitholder must obtain a taxpayer identification number from the IRS and submit that number to our transfer agent on a Form W-8 or applicable substitute form in order to obtain credit for these withholding taxes.

In addition, because a foreign corporation that owns units will be treated as engaged in a United States trade or business, that corporation may be subject to the United States branch profits tax at a rate of 30%, in addition to regular federal income tax, on its share of our income and gain, as adjusted for changes in the foreign corporation's "U.S. net equity," which are effectively connected with the conduct of a United States trade or business. That tax may be reduced or eliminated by an income tax treaty between the United States and the country in which the foreign corporate unitholder is a "qualified resident." In addition, this type of unitholder is subject to special information reporting requirements under Section 6038C of the Internal Revenue Code.

Under a ruling of the IRS, a foreign unitholder who sells or otherwise disposes of a unit will be subject to federal income tax on gain realized on the sale or disposition of that unit to the extent that this gain is effectively connected with a United States trade or business of the foreign unitholder. Apart from the ruling, a foreign unitholder will not be taxed or subject to withholding upon the sale or disposition of a unit if he has owned less than 5% in value of the units during the five-year period ending on the date of the disposition and if the units are regularly traded on an established securities market at the time of the sale or disposition.

## Administrative Matters

*Information Returns and Audit Procedures.* We intend to furnish to each unitholder, within 90 days after the close of each calendar year, specific tax information, including a Schedule K-1, which describes his share of our income, gain, loss and deduction for our preceding taxable year. In preparing this information, which will not be reviewed by counsel, we will take various accounting and reporting positions, some of which have been mentioned earlier, to determine his share of income, gain, loss and deduction. We cannot assure you that those positions will yield a result that conforms to the requirements of the Internal Revenue Code, regulations or administrative interpretations of the IRS. Neither we nor counsel can assure prospective unitholders that the IRS will not successfully contend in court that those positions are impermissible. Any challenge by the IRS could negatively affect the value of the units.

The IRS may audit our federal income tax information returns. Adjustments resulting from an IRS audit may require each unitholder to adjust a prior year's tax liability, and possibly may result in an

audit of his own return. Any audit of a unitholder's return could result in adjustments not related to our returns as well as those related to our returns.

Partnerships generally are treated as separate entities for purposes of federal tax audits, judicial review of administrative adjustments by the IRS and tax settlement proceedings. The tax treatment of partnership items of income, gain, loss and deduction are determined in a partnership proceeding rather than in separate proceedings with the partners. The Internal Revenue Code requires that one partner be designated as the "Tax Matters Partner" for these purposes. The partnership agreement names Williams GP LLC as our Tax Matters Partner.

The Tax Matters Partner will make some elections on our behalf and on behalf of unitholders. In addition, the Tax Matters Partner can extend the statute of limitations for assessment of tax deficiencies against unitholders for items in our returns. The Tax Matters Partner may bind a unitholder with less than a 1% profits interest in us to a settlement with the IRS unless that unitholder elects, by filing a statement with the IRS, not to give that authority to the Tax Matters Partner. The Tax Matters Partner may seek judicial review, by which all the unitholders are bound, of a final partnership administrative adjustment and, if the Tax Matters Partner fails to seek judicial review, judicial review may be sought by any unitholder having at least a 1% interest in profits or by any group of unitholders having in the aggregate at least a 5% interest in profits. However, only one action for judicial review will go forward, and each unitholder with an interest in the outcome may participate.

A unitholder must file a statement with the IRS identifying the treatment of any item on his federal income tax return that is not consistent with the treatment of the item on our return. Intentional or negligent disregard of this consistency requirement may subject a unitholder to substantial penalties.

*Nominee Reporting.* Persons who hold an interest in us as a nominee for another person are required to furnish to us:

- (a) the name, address and taxpayer identification number of the beneficial owner and the nominee;
- (b) whether the beneficial owner is
  - (1) a person that is not a United States person,
  - (2) a foreign government, an international organization or any wholly owned agency or instrumentality of either of the foregoing, or
  - (3) a tax-exempt entity;
- (c) the amount and description of units held, acquired or transferred for the beneficial owner; and
- (d) specific information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales.

Brokers and financial institutions are required to furnish additional information, including whether they are United States persons and specific information on units they acquire, hold or transfer for their own account. A penalty of \$50 per failure, up to a maximum of \$100,000 per calendar year, is imposed by the Internal Revenue Code for failure to report that information to us. The nominee is required to supply the beneficial owner of the units with the information furnished to us.

*Registration as a Tax Shelter.* The Internal Revenue Code requires that "tax shelters" be registered with the Secretary of the Treasury. The temporary Treasury regulations interpreting the tax shelter registration provisions of the Internal Revenue Code are extremely broad. It is arguable that we are not subject to the registration requirement on the basis that we will not constitute a tax shelter. However, we have registered as a tax shelter with the Secretary of Treasury in the absence of assurance that we will not be subject to tax shelter registration and in light of the substantial penalties which might be imposed if registration is required and not undertaken. Our tax shelter registration number is 01036000014.

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Issuance of this registration number does not indicate that investment in us or the claimed tax benefits have been reviewed, examined or approved by the IRS.

A unitholder who sells or otherwise transfers a unit in a later transaction must furnish the registration number to the transferee. The penalty for failure of the transferor of a unit to furnish the registration number to the transferee is \$100 for each failure. The unitholders must disclose our tax shelter registration number on Form 8271 to be attached to the tax return on which any deduction, loss or other benefit we generate is claimed or on which any of our income is included. A unitholder who fails to disclose the tax shelter registration number on his return, without reasonable cause for that failure, will be subject to a \$250 penalty for each failure. Any penalties discussed are not deductible for federal income tax purposes.

*Accuracy-related Penalties.* An additional tax equal to 20% of the amount of any portion of an underpayment of tax that is attributable to one or more specified causes, including negligence or disregard of rules or regulations, substantial understatements of income tax and substantial valuation misstatements, is imposed by the Internal Revenue Code. No penalty will be imposed, however, for any portion of an underpayment if it is shown that there was a reasonable cause for that portion and that the taxpayer acted in good faith regarding that portion.

A substantial understatement of income tax in any taxable year exists if the amount of the understatement exceeds the greater of 10% of the tax required to be shown on the return for the taxable year or \$5,000 (\$10,000 for most corporations). The amount of any understatement subject to penalty generally is reduced if any portion is attributable to a position adopted on the return:

- (1) for which there is, or was, "substantial authority," or
- (2) as to which there is a reasonable basis and the pertinent facts of that position are disclosed on the return.

More stringent rules apply to "tax shelters," a term that in this context does not appear to include us. If any item of income, gain, loss or deduction included in the distributive shares of unitholders might result in that kind of an "understatement" of income for which no "substantial authority" exists, we must disclose the pertinent facts on our return. In addition, we will make a reasonable effort to furnish sufficient information for unitholders to make adequate disclosure on their returns to avoid liability for this penalty.

A substantial valuation misstatement exists if the value of any property, or the adjusted basis of any property, claimed on a tax return is 200% or more of the amount determined to be the correct amount of the valuation or adjusted basis. No penalty is imposed unless the portion of the underpayment attributable to a substantial valuation misstatement exceeds \$5,000 (\$10,000 for most corporations). If the valuation claimed on a return is 400% or more than the correct valuation, the penalty imposed increases to 40%.

### **State, Local and Other Tax Considerations**

In addition to federal income taxes, you will be subject to other taxes, including state and local income taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which we do business or own property or in which you are a resident. We currently do business or own property in 18 states, most of which impose income taxes. We may also own property or do business in other states in the future. Although an analysis of those various taxes is not presented here, each prospective unitholder should consider their potential impact on his investment in us. You may not be required to file a return and pay taxes in some states because your income from that state falls below the filing and payment requirement. You will be required, however, to file state income tax returns and to pay state income taxes in many of the states in which we do business or own property, and you may be subject to penalties for failure to comply with those requirements. In some states, tax losses may not produce a tax benefit in the year incurred and also may not be available to offset income in subsequent taxable years. Some of the states may require us, or we may elect, to withhold a percentage of income from amounts to be distributed to a unitholder

who is not a resident of the state. Withholding, the amount of which may be greater or less than a particular unitholder's income tax liability to the state, generally does not relieve a nonresident unitholder from the obligation to file an income tax return. Amounts withheld may be treated as if distributed to unitholders for purposes of determining the amounts distributed by us. Please read " Tax Consequences of Unit Ownership Entity-Level Collections." Based on current law and our estimate of our future operations, the general partner anticipates that any amounts required to be withheld will not be material.

It is the responsibility of each unitholder to investigate the legal and tax consequences, under the laws of pertinent states and localities, of his investment in us. Accordingly, each prospective unitholder should consult, and must depend upon, his own tax counsel or other advisor with regard to those matters. Further, it is the responsibility of each unitholder to file all state and local, as well as United States federal tax returns, that may be required of him. Vinson & Elkins L.L.P. has not rendered an opinion on the state or local tax consequences of an investment in us.

#### **Tax Consequences of Ownership of Debt Securities**

A description of the material federal income tax consequences of the acquisition, ownership and disposition of debt securities will be set forth on the prospectus supplement relating to the offering of debt securities.

### INVESTMENT IN US BY EMPLOYEE BENEFIT PLANS

An investment in us by an employee benefit plan is subject to certain additional considerations because the investments of such plans are subject to the fiduciary responsibility and prohibited transaction provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and restrictions imposed by Section 4975 of the Internal Revenue Code. As used herein, the term "employee benefit plan" includes, but is not limited to, qualified pension, profit-sharing and stock bonus plans, Keogh plans, simplified employee pension plans and tax deferred annuities or IRAs established or maintained by an employer or employee organization. Among other things, consideration should be given to (a) whether such investment is prudent under Section 404(a)(1)(B) of ERISA; (b) whether in making such investment, such plan will satisfy the diversification requirement of Section 404(a)(1)(C) of ERISA; and (c) whether such investment will result in recognition of unrelated business taxable income by such plan and, if so, the potential after-tax investment return. Please read "Tax Considerations Tax-Exempt Organizations and Other Investors." The person with investment discretion with respect to the assets of an employee benefit plan (a "fiduciary") should determine whether an investment in us is authorized by the appropriate governing instrument and is a proper investment for such plan.

Section 406 of ERISA and Section 4975 of the Internal Revenue Code (which also applies to IRAs that are not considered part of an employee benefit plan) prohibit an employee benefit plan from engaging in certain transactions involving "plan assets" with parties that are "parties in interest" under ERISA or "disqualified persons" under the Internal Revenue Code with respect to the plan.

In addition to considering whether the purchase of limited partnership units is a prohibited transaction, a fiduciary of an employee benefit plan should consider whether such plan will, by investing in us, be deemed to own an undivided interest in our assets, with the result that our general partner also would be a fiduciary of such plan and our operations would be subject to the regulatory restrictions of ERISA, including its prohibited transaction rules, as well as the prohibited transaction rules of the Internal Revenue Code.

The Department of Labor regulations provide guidance with respect to whether the assets of an entity in which employee benefit plans acquire equity interests would be deemed "plan assets" under certain circumstances. Pursuant to these regulations, an entity's assets would not be considered to be "plan assets" if, among other things, (a) the equity interest acquired by employee benefit plans are publicly offered securities i.e., the equity interests are widely held by 100 or more investors independent of the issuer and each other, freely transferable and registered pursuant to certain provisions of the federal securities laws, (b) the entity is an "Operating Partnership" i.e., it is primarily engaged in the production or sale of a product or service other than the investment of capital either directly or through a majority owned subsidiary or subsidiaries, or (c) there is no significant investment by benefit plan investors, which is defined to mean that less than 25% of the value of each class of equity interest (disregarding certain interests held by our general partner, its affiliates and certain other persons) is held by the employee benefit plans referred to above, IRAs and other employee benefit plans not subject to ERISA (such as governmental plans). Our assets should not be considered "plan assets" under these regulations because it is expected that the investment will satisfy the requirements in (a) and (b) above and may also satisfy the requirements in (c).

Plan fiduciaries contemplating a purchase of limited partnership units should consult with their own counsel regarding the consequences under ERISA and the Internal Revenue Code in light of the serious penalties imposed on persons who engage in prohibited transactions or other violations.

**PLAN OF DISTRIBUTION**

We may sell the securities being offered hereby:

directly to purchasers;

through agents;

through underwriters; and

through dealers.

We, or agents designated by us, may directly solicit, from time to time, offers to purchase the securities. Any such agent may be deemed to be an underwriter as that term is defined in the Securities Act of 1933. We will name the agents involved in the offer or sale of the securities and describe any commissions payable by us to these agents in the prospectus supplement. Unless otherwise indicated in the prospectus supplement, these agents will be acting on a best efforts basis for the period of their appointment. The agents may be entitled under agreements which may be entered into with us to indemnification by us against specific civil liabilities, including liabilities under the Securities Act of 1933. The agents may also be our customers or may engage in transactions with or perform services for us in the ordinary course of business.

If we utilize any underwriters in the sale of the securities in respect of which this prospectus is delivered, we will enter into an underwriting agreement with those underwriters at the time of sale to them. We will set forth the names of these underwriters and the terms of the transaction in the prospectus supplement, which will be used by the underwriters to make resales of the securities in respect of which this prospectus is delivered to the public. We may indemnify the underwriters under the relevant underwriting agreement to indemnification by us against specific liabilities, including liabilities under the Securities Act. The underwriters may also be our customers or may engage in transactions with or perform services for us in the ordinary course of business.

If we utilize a dealer in the sale of the securities in respect of which this prospectus is delivered, we will sell those securities to the dealer, as principal. The dealer may then resell those securities to the public at varying prices to be determined by the dealer at the time of resale. We may indemnify the dealers against specific liabilities, including liabilities under the Securities Act. The dealers may also be our customers or may engage in transactions with, or perform services for us in the ordinary course of business.

The place and time of delivery for the securities in respect of which this prospectus is delivered are set forth in the accompanying prospectus supplement.

**LEGAL**

Certain legal matters in connection with the securities will be passed upon by Vinson & Elkins L.L.P., Houston, Texas, as our counsel. Any underwriter will be advised about other issues relating to any offering by its own legal counsel.

**EXPERTS**

The consolidated financial statements of Williams Energy Partners L.P. for the year ended December 31, 2001 appearing in Williams Energy Partners L.P.'s Current Report on Form 8-K/A filed May 9, 2002 have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports thereon included therein and incorporated herein by reference. These consolidated financial statements and consolidated balance sheet are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

PROSPECTUS

**14,590,312 Common Units**

**7,830,924 Class B Common Units**

**5,679,694 Subordinated Units**

**MAGELLAN MIDSTREAM PARTNERS, L.P.**

**Representing Limited Partner Interests**

This prospectus relates to:

14,590,312 common units representing limited partner interests in Magellan Midstream Partners, L.P., which include 13,510,618 common units representing limited partner interests in Magellan Midstream Partners, L.P. that may be issued upon conversion of 7,830,924 Class B common units and 5,679,694 subordinated units registered herein;

7,830,924 Class B common units representing limited partner interests in Magellan Midstream Partners, L.P.; and

5,679,694 subordinated units representing limited partner interests in Magellan Midstream Partners, L.P.

The common units, the Class B common units and the subordinated units (collectively, the "Units") may be offered from time to time by the selling unitholder named in this prospectus or in any supplement to this prospectus. We will not receive any proceeds from the sale of Units by the selling unitholder.

Our common units are traded on the New York Stock Exchange under the symbol "MMP." On October 13, 2003, the last reported sales price of our common units was \$48.11 per common unit. Prior to this offering, there has not been a public market for the Class B common units or the subordinated units. We will provide information in the prospectus supplement for the expected trading market, if any, for the Class B common units and the subordinated units.

**Limited partnerships are inherently different from corporations. You should carefully consider each of the factors described under "Risk Factors," which begin on page 2 of this prospectus before you make an investment in our securities.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

**The date of this prospectus is November 3, 2003**

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You should rely only on the information contained or incorporated by reference in this prospectus or any prospectus supplement. We have not authorized any other person to provide you with different information. You should not assume that the information incorporated by reference or provided in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of each document.

### **ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (the SEC) using a "shelf" registration process. Under this shelf process, the selling unitholder may sell up to:

14,590,312 common units representing limited partner interests in Magellan Midstream Partners, L.P., which include 13,510,618 common units representing limited partner interests in Magellan Midstream Partners, L.P. that may be issued upon conversion of 7,830,924 Class B common units and 5,679,694 subordinated units registered herein;

7,830,924 Class B common units representing limited partner interests in Magellan Midstream Partners, L.P.; and

5,679,694 subordinated units representing limited partner interests in Magellan Midstream Partners, L.P.

Each time the selling unitholder offers securities, we will provide you with a prospectus supplement that will describe, among other things, the specific amounts and prices of the securities being offered and the terms of the offering. The prospectus supplement may also add, update or change information contained in this prospectus. Therefore, before you invest in our securities, you should read this prospectus and any prospectus supplement and any additional information described under the heading "Where You Can Find More Information."

As used in this prospectus, "we," "us," "our" and "Magellan Midstream Partners" mean Magellan Midstream Partners, L.P. and, where the context requires, include our operating subsidiaries.

### **ABOUT MAGELLAN MIDSTREAM PARTNERS**

We were formed by The Williams Companies, Inc. (or The Williams Companies) in August 2000 to own, operate and acquire a diversified portfolio of complementary energy assets. We are principally engaged in the transportation, storage and distribution of refined petroleum products and ammonia.

On June 17, 2003, Magellan Midstream Holdings, L.P. formerly WEG Acquisitions, L.P., a new entity recently formed by Madison Dearborn Partners, LLC and Carlyle/Riverstone Global Energy and Power Fund II, L.P., purchased from The Williams Companies all of the membership interests in our general partner and all of the Class B common units, common units and subordinated units held by The Williams Companies and its affiliates. Effective September 1, 2003, we changed our name to Magellan Midstream Partners, L.P.

Our principal executive offices are located in One Williams Center, P. O. Box 22186, Tulsa, Oklahoma 74121-2186 and our phone number is (877) 934-6571.

## RISK FACTORS

*Limited partner interests are inherently different from capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. You should carefully consider the following risk factors together with all of the other information included in this prospectus, any prospectus supplement and the documents we have incorporated by reference into this document in evaluating an investment in the common units.*

*If any of the following risks were actually to occur, our business, financial condition or results of operations could be materially adversely affected. In that case, the trading price of our common units could decline and you could lose all or part of your investment.*

### **Risks Related to Our Business**

***We may not be able to generate sufficient cash from operations to allow us to pay the minimum quarterly distribution following establishment of cash reserves and payment of fees and expenses, including payments to our general partner.***

The amount of cash we can distribute on our common units principally depends upon the cash we generate from our operations. Because the cash we generate from operations will fluctuate from quarter to quarter, we may not be able to pay the minimum quarterly distribution for each quarter. Our ability to pay the minimum quarterly distribution each quarter depends primarily on cash flow, including cash flow from financial reserves and working capital borrowings, and not solely on profitability, which is affected by non-cash items. As a result, we may make cash distributions during periods when we record losses and may not make cash distributions during periods when we record net income.

***Potential future acquisitions and expansions, if any, may affect our business by substantially increasing the level of our indebtedness and contingent liabilities and increasing our risk of being unable to effectively integrate these new operations.***

From time to time, we evaluate and acquire assets and businesses that we believe complement our existing assets and businesses. Acquisitions may require substantial capital or the incurrence of substantial indebtedness. If we consummate any future acquisitions, our capitalization and results of operations may change significantly, and you will not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in determining the application of these funds and other resources.

Acquisitions and business expansions involve numerous risks, including difficulties in the assimilation of the assets and operations of the acquired businesses, inefficiencies and difficulties that arise because of unfamiliarity with new assets and the businesses associated with them and new geographic areas and the diversion of management's attention from other business concerns. Further, unexpected costs and challenges may arise whenever businesses with different operations or management are combined, and we may experience unanticipated delays in realizing the benefits of an acquisition. Following an acquisition, we may discover previously unknown liabilities associated with the acquired business for which we have no recourse under applicable indemnification provisions.

***Our financial results depend on the demand for the refined petroleum products that we transport, store and distribute.***

Any sustained decrease in demand for refined petroleum products in the markets served by our pipeline and terminals could result in a significant reduction in the volume of products that we transport in our pipeline, store at our marine terminal facilities and distribute through our inland

terminals, and therefore reduce our cash flow and our ability to pay cash distributions to you. Factors that could lead to a decrease in market demand include:

an increase in the market price of crude oil that leads to higher refined product prices, which may reduce demand for gasoline and other petroleum products. Market prices for refined petroleum products are subject to wide fluctuation in response to changes in global and regional supply over which we have no control;

a recession or other adverse economic condition that results in lower spending by consumers and businesses on transportation fuels such as gasoline, jet fuel and diesel;

higher fuel taxes or other governmental or regulatory actions that increase the cost of gasoline;

an increase in fuel economy, whether as a result of a shift by consumers to more fuel-efficient vehicles or technological advances by manufacturers; and

the increased use of alternative fuel sources, such as fuel cells and solar, electric and battery-powered engines. Several state and federal initiatives mandate this increased use.

***When prices for the future delivery of petroleum products that we transport through our pipeline system or store in our marine terminals fall below current prices, customers are less likely to store these products, thereby reducing our storage revenues.***

This market condition is commonly referred to as "backwardation." When the petroleum product market is in backwardation, the demand for storage capacity at our facilities may decrease. If the market becomes strongly backwardated for an extended period of time, it may affect our ability to pay cash distributions.

***We depend on petroleum product pipelines owned and operated by others to supply our terminals.***

Most of our inland and marine terminal facilities that are not connected to the Magellan Pipeline, formerly known as the Williams Pipe Line, depend on connections with petroleum product pipelines owned and operated by third parties. Reduced throughput on these pipelines because of testing, line repair, damage to pipelines, reduced operating pressures or other causes could result in our being unable to deliver products to our customers from our terminals or receive products for storage and could adversely affect our ability to meet our financial obligations and pay cash distributions.

***Terrorist attacks aimed at our facilities could adversely affect our business.***

On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scale. Since the September 11 attacks, the U.S. government has issued warnings that energy assets, specifically our nation's pipeline infrastructure, may be future targets of terrorist organizations. These developments have subjected our operations to increased risks. Any future terrorist attack on our facilities, those of our customers and, in some cases, those of other pipelines, could have a material adverse effect on our business.

***Our business involves many hazards and operational risks, some of which may not be covered by insurance.***

Our operations are subject to many hazards inherent in the transportation of refined petroleum products and ammonia, including ruptures, leaks and fires. These risks could result in substantial losses due to personal injury or loss of life, severe damage to and destruction of property and equipment and pollution or other environmental damage and may result in curtailment or suspension of our related operations. We are not fully insured against all risks incident to our business. In addition, as a result of market conditions, premiums for our insurance policies have increased substantially and could escalate further. In some instances, insurance could become unavailable or available only for reduced amounts

of coverage. For example, insurance carriers are now requiring broad exclusions for losses due to war risk and terrorist and sabotage acts. If a significant accident or event occurs that is not fully insured, it could adversely affect our financial position or results of operations.

***Rate regulation or a successful challenge to the rates we charge on the Magellan Pipeline system may reduce the amount of cash we generate.***

The Federal Energy Regulatory Commission, or the FERC, regulates the tariff rates for the Magellan Pipeline system. Shippers may protest the pipeline system's tariffs, and the FERC may investigate the lawfulness of new or changed tariff rates and order refunds of amounts collected under rates ultimately found to be unlawful. The FERC may also investigate tariff rates that have become final and effective.

The FERC's ratemaking methodologies may limit our ability to set rates based on our true costs or may delay the use of rates that reflect increased costs. The FERC's primary ratemaking methodology is price indexing. We use this methodology to establish our rates in approximately one-third of our interstate markets. The indexing method allows a pipeline to increase its rates by a percentage equal to the change in the producer price index, or PPI. If the PPI falls, we could be required to reduce our rates that are based on the FERC's price indexing methodology if they exceed the new maximum allowable rate. In addition, changes in the PPI might not be large enough to fully reflect actual increases in the costs associated with the pipeline.

In recent decisions involving unrelated pipeline limited partnerships, the FERC has ruled that these partnerships may not claim an income tax allowance for income attributable to non-corporate limited partners. A shipper could rely on these decisions to challenge our indexed rates and claim that, because we now own the Magellan Pipeline system, the Magellan Pipeline system's income tax allowance should be reduced. If the FERC were to disallow all or part of our income tax allowance, it may be more difficult to justify our rates. If a challenge were brought and the FERC found that some of the indexed rates exceed levels justified by the cost of service, the FERC would order a reduction in the indexed rates and could require reparations for a period of up to two years prior to the filing of a complaint.

We establish rates in approximately two-thirds of our markets using the FERC's market-based ratemaking regulations. These regulations allow us to establish rates based on conditions in individual markets without regard to the index or our cost of service. If successfully challenged, the FERC could take away our ability to establish market-based rates. Any reduction in the indexed rates, removal of our ability to establish market-based rates, or payment of reparations could have a material adverse effect on our operations and reduce the amount of cash we generate.

***Mergers among our customers and competitors could result in lower volumes being shipped on our pipeline and/or products stored in our terminals, thereby reducing the amount of cash we generate.***

Mergers between existing customers could provide strong economic incentives for the combined entities to utilize their existing systems instead of ours in those markets where the systems compete. As a result, we could lose some or all of the volumes and associated revenues from these customers and we could experience difficulty in replacing those lost volumes and revenues. Because most of our operating costs are fixed, a reduction in volumes would result in not only a reduction of revenues, but also a decline in net income and cash flow of a similar magnitude, which would reduce our ability to meet our financial obligations and pay cash distributions.

***The closure of mid-continent refineries that supply the Magellan Pipeline system could result in disruptions or reductions in the volumes transported on the Magellan Pipeline system and reduce the amount of cash we generate.***

The U.S. Environmental Protection Agency recently adopted requirements that require refineries to install equipment to lower the sulfur content of gasoline and some diesel fuel they produce. The requirements relating to gasoline will take effect and be implemented beginning in 2004, and the requirements relating to diesel fuel will take effect in 2006 and be implemented through 2010. If refinery owners that use the Magellan Pipeline system determine that compliance with these new requirements is too costly, they may close some of these refineries, which could reduce the volumes transported on the Magellan Pipeline system and the amount of cash we generate.

***Our business is subject to federal, state and local laws and regulations that govern the environmental and operational safety aspects of our operations.***

Each of our operating segments is subject to the risk of incurring substantial costs and liabilities under environmental and safety laws. These costs and liabilities arise under increasingly strict environmental and safety laws, including regulations and governmental enforcement policies, and as a result of claims for damages to property or persons arising from our operations. Failure to comply with these laws and regulations may result in assessment of administrative, civil and criminal penalties, imposition of cleanup and site restoration costs and liens and, to a lesser extent, issuance of injunctions to limit or cease operations. If we were unable to recover these costs through increased revenues, our ability to meet our financial obligations and pay cash distributions could be adversely affected.

The terminal and pipeline facilities that comprise the Magellan Pipeline system have been used for many years to transport, distribute or store petroleum products. Over time, operations by us, our predecessors or third parties may have resulted in the disposal or release of hydrocarbons or solid wastes at or from these terminal properties and along such pipeline rights-of-way. In addition, our pipeline and some of our terminals are located on or near current or former refining and terminal sites, and there is a risk that contamination is present on those sites. We may be held jointly and severally liable under a number of these environmental laws and regulations for such disposal and releases of hydrocarbons or solid wastes or the existence of contamination, even in circumstances where such activities or conditions were caused by third parties not under our control or were otherwise lawful at the time that they occurred.

In addition, we own a number of properties that have been used for many years to distribute or store petroleum products by third parties not under our control. In some cases, owners, tenants or users of these properties have disposed of or released hydrocarbons or solid wastes on or under these properties. In addition, some of our terminals are located on or near current or former refining and terminal operations, and there is a risk that contamination is present on these sites. The transportation of ammonia by our pipeline is hazardous and may result in environmental damage, including accidental releases that may cause death or injuries to humans and farm animals and damage to crops.

***Competition with respect to our operating segments could ultimately lead to lower levels of profits and reduce the amount of cash we generate.***

We face competition from other pipelines and terminals in the same markets as the Magellan Pipeline system, as well as from other means of transporting, storing and distributing petroleum products. In addition, our marine and inland terminals face competition from large, generally well-financed companies that own many terminals, as well as from small companies. Our marine and inland terminals also encounter competition from integrated refining and marketing companies that own their own terminal facilities. Our customers demand delivery of products on tight time schedules and in a number of geographic markets. If our quality of service declines or we cannot meet the

demands of our customers, they may use our competitors. We compete primarily with rail carriers for the transportation of ammonia. If our customers elect to transport ammonia by rail rather than pipeline, we may realize lower revenues and cash flows and our ability to pay cash distributions may be adversely affected. Our ammonia pipeline also competes with another ammonia pipeline in Iowa and Nebraska.

***Our ammonia pipeline system is dependent on three customers.***

Three customers ship all of the ammonia on our pipeline and utilize the six terminals that we own and operate on the pipeline. We have contracts with Koch Nitrogen Company, Agrium U.S. Inc. and Terra Nitrogen, L.P. through June 2005 that obligate them to ship-or-pay for specified minimum quantities of ammonia. One of these customers has a credit rating below investment grade. The loss of any one of these three customers or their failure or inability to pay us could adversely affect our ability to pay cash distributions to you.

***The Williams Companies has sold its interest in our general partner. As a result of the sale, Magellan Midstream Holdings entered into a new omnibus agreement with The Williams Companies and certain of its affiliates to provide general and administrative services to us for a fixed charge, which will result in higher general and administrative expenses and reduce the amount of cash we generate.***

In connection with the sale to Magellan Midstream Holdings by The Williams Companies of 100% of its ownership interests in our general partner and all of its limited partner interests in us, we are a third-party beneficiary of a new omnibus agreement with Magellan Midstream Holdings. There are limitations through 2010 on the amount of general and administrative expenses for which we are required to reimburse Magellan Midstream Holdings and certain of its affiliates, which will operate as follows:

for expenses below a lower cap amount, we are required to reimburse Magellan Midstream Holdings and these affiliates;

for expenses above the lower cap amount and below an upper cap amount, we are not required to reimburse Magellan Midstream Holdings or these affiliates; and

for expenses above the upper cap amount, we are required to reimburse Magellan Midstream Holdings and these affiliates, although The Williams Companies will reimburse Magellan Midstream Holdings for these amounts through June 2004.

The initial lower cap amount for 2003 is equivalent to the 2003 cap under the old omnibus agreement of approximately \$37.9 million, but will escalate annually beginning in 2004 at 7% (or, if greater, the percentage increase in the Consumer Price Index), which is a higher escalation rate than under the old omnibus agreement. The upper cap amount is \$49.3 million for 2003, but will escalate annually beginning in 2004 at the lesser of 2.5% or the percentage increase in the Consumer Price Index.

These limitations on our obligation to reimburse Magellan Midstream Holdings and certain of its affiliates for general and administrative expenses will terminate upon a change of control of Magellan Midstream Holdings or our general partner. A change of control of our general partner will be deemed to occur if, among other things, directors are elected whose nomination for election to our general partner's board of directors was not approved by our general partner or its board of directors or any nominating committee thereof at a time when the board was comprised of only such approved directors or the current directors. The amount of cash we generate will be reduced by any general and administrative costs we incur (1) above the lower cap amount in the event of a change of control of Magellan Midstream Holdings or our general partner or (2) above the upper cap amount.



***The sale of The Williams Companies' interests in our general partner requires us to separate from The Williams Companies, which in turn, will require us to obtain certain services from other sources, which could increase our costs and limit our ability to pay cash distributions.***

We have entered into a new services agreement with Magellan Midstream Holdings and our general partner. The services provided under the new services agreement include accounting, building administration, human resources, information technology, legal and security, among others. As with our old services agreement, Magellan Midstream Holdings will have the right at any time to terminate its obligations under this services agreement upon 90 days notice. To the extent that neither Magellan Midstream Holdings nor any of its subsidiaries, including our general partner, provides these services to us, the limitations under the new omnibus agreement on our reimbursement of general and administrative expenses relating to these services would no longer apply and we may incur increased general and administrative expenses, which could increase our costs and limit our ability to pay cash distributions.

***Indemnities provided by The Williams Companies related to assets contributed at our initial public offering and our acquisition of the Magellan Pipeline system create credit exposure to The Williams Companies.***

The Williams Companies and certain of its affiliates have indemnified us for certain liabilities and expenses related to the (1) assets they contributed to us at the time of our initial public offering, (2) their contribution of Magellan Pipeline to us in April 2002 and (3) the sale of 100% of their interest in our general partner and all of their limited partner interest in us to Magellan Midstream Holdings. These indemnities primarily address environmental liabilities related to matters that arose prior to our ownership of these assets. The Williams Companies has experienced financial and liquidity difficulties that have resulted in the loss of its investment grade credit rating. If The Williams Companies were unable to indemnify us for these liabilities, it would increase our environmental costs and reduce the amount of cash we generate.

***Our secured indebtedness could limit our ability to raise cash to fund future obligations or liquidity concerns.***

As of September 30, 2003, our total outstanding long-term indebtedness was approximately \$570.0 million, including \$480.0 million of senior secured notes and approximately \$90.0 million under our credit facility. The indebtedness represented by our senior secured notes and under our credit facility is secured by substantially all of our assets.

Covenants in our debt instruments restrict the aggregate amount of debt that we can borrow. In addition, these covenants restrict our ability to incur additional indebtedness or liens, sell assets, make loans or investments, and acquire or be acquired by other companies. These debt instruments also provide that, if a change in control of Magellan Midstream Holdings or our general partner occurs, this indebtedness may become due. In such event, we cannot assure you that we would be able to repay this indebtedness.

## **Risks Related to Our Partnership Structure**

***Cost reimbursements due our general partner may be substantial and could reduce our cash available for distribution.***

Prior to making any distribution on the common units, Class B common units or subordinated units, we will reimburse the general partner and its affiliates, including officers and directors of our general partner, for expenses they incur on our behalf. The reimbursement of expenses could adversely affect our ability to pay cash distributions. Our general partner has sole discretion to determine the amount of these expenses, subject to certain annual limits. In addition, our general partner and its affiliates may provide us other services for which we will be charged fees as determined by our general partner.

***Unitholders have limited voting rights and control of management.***

Our general partner manages and controls our activities and the activities of our operating partnerships. Although our unitholders elect the board of directors of our general partner, they have no right to elect the general partner on an annual or other ongoing basis. However, if the general partner resigns or is removed, its successor may be elected by holders of a majority of the limited partnership units. Unitholders may remove the general partner only by a vote of the holders of at least 66<sup>2</sup>/<sub>3</sub>% of the common units and the subordinated units. As a result, unitholders will have limited influence on matters affecting our operations, and third parties may find it difficult to gain control of us or influence our actions.

***Our general partner's absolute discretion in determining the level of cash reserves may adversely affect our ability to make cash distributions to our unitholders.***

Our partnership agreement requires our general partner to deduct from operating surplus cash reserves that in its reasonable discretion are necessary to fund our future operating expenditures. In addition, the partnership agreement permits our general partner to reduce available cash by establishing cash reserves for the proper conduct of our business, to comply with applicable law or agreements to which we are a party or to provide funds for future distributions to partners. These cash reserves will affect the amount of cash available for distribution to our unitholders.

***We may issue additional common units without your approval, which would dilute your existing ownership interests.***

During the subordination period, our general partner may cause us to issue up to 2,839,847 additional common units without your approval. Our general partner may also cause us to issue an unlimited number of additional common units, without your approval, in a number of circumstances, such as:

the issuance of common units in connection with acquisitions that increase cash flow from operations per unit on a pro forma basis;

the conversion of subordinated units into common units;

the conversion of the general partner interest and the incentive distribution rights into common units as a result of the withdrawal of our general partner;

issuances of common units under our long-term incentive plan; or

issuances of common units to repay up to \$40.0 million in indebtedness.

The issuance of additional common units or other equity securities of equal or senior rank will have the following effects:

your proportionate ownership interest in us will decrease;

the amount of cash available for distribution on each unit may decrease;

since a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by the common unitholders will increase;

the relative voting strength of each previously outstanding unit may be diminished; and

the market price of the common units may decline.

After the end of the subordination period, we may issue an unlimited number of limited partner interests of any type without the approval of the unitholders. Our partnership agreement does not give

the unitholders the right to approve our issuance of equity securities ranking junior to the common units.

***You may not have limited liability if a court finds that unitholder actions constitute control of our business.***

Under Delaware law, you could be held liable for our obligations to the same extent as a general partner if a court determined that the right of unitholders to remove our general partner or to take other action under the partnership agreement constituted participation in the "control" of our business.

The general partner generally has unlimited liability for the obligations of the partnership, such as its debts and environmental liabilities, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. In addition, Section 17-607 of the Delaware Revised Uniform Limited Partnership Act provides that, under some circumstances, a unitholder may be liable to us for the amount of a distribution for a period of three years from the date of the distribution.

### **Tax Risks to Common Unitholders**

You should read "Material Tax Consequences" for a more complete discussion of the expected federal income tax consequences related to owning and disposing of common units.

***Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to entity-level taxation by states. If the IRS treats us as a corporation or we become subject to entity-level taxation for state tax purposes, it would reduce the amount of cash we could distribute.***

The after-tax economic benefit of an investment in the common units depends largely on our being treated as a partnership for federal income tax purposes. If we were classified as a corporation for federal income tax purposes, we would pay federal income tax on our income at the corporate rate. Some or all of the distributions made to unitholders would be treated as dividend income, and no income, gains, losses or deductions would flow through to unitholders. Treatment of us as a corporation would cause a material reduction in our cash flow, which would reduce our ability to meet our financial obligations and pay cash distributions.

In addition, because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, the cash available to pay distributions would be reduced. The partnership agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, then the minimum quarterly distribution and the target distribution levels will be decreased to reflect that impact on us.

***Recent changes in federal income tax law could affect the value of our common units.***

On May 28, 2003, the Jobs and Growth Tax Relief Reconciliation Act of 2003 was signed into law, which generally reduces the maximum tax rate applicable to corporate dividends to 15%. This reduction could materially affect the value of our common units in relation to alternative investments in corporate stock, as investments in corporate stock may be more attractive to individual investors thereby exerting downward pressure on the market price of our common units.

***A successful IRS contest of the federal income tax positions we take may adversely impact the market for common units, and the costs of any contests will be borne by our unitholders and our general partner.***

The IRS may adopt positions that differ from the conclusions of our counsel expressed in this prospectus or from the positions we take. It may be necessary to resort to administrative or court

proceedings to sustain our counsel's conclusions or the positions we take. A court may not concur with our counsel's conclusions or the positions we take. Any contest with the IRS may materially and adversely impact the market for common units and the price at which they trade. In addition, the costs of any contest with the IRS, principally legal, accounting and related fees, will be borne indirectly by our unitholders and our general partner.

***You may be required to pay taxes even if you do not receive any cash distributions.***

You will be required to pay federal income taxes and, in some cases, state and local income taxes on your share of our taxable income even if you do not receive any cash distributions from us. You may not receive cash distributions from us equal to your share of our taxable income or even equal to the actual tax liability that results from your share of our taxable income.

***Tax gain or loss on disposition of common units could be different than expected.***

If you sell your common units, you will recognize gain or loss equal to the difference between the amount realized and your tax basis in those common units. Prior distributions in excess of the total net taxable income you were allocated for a common unit, which decreased your tax basis in that common unit, will, in effect, become taxable income to you if the common unit is sold at a price greater than your tax basis in that common unit, even if the price you receive is less than your original cost. A substantial portion of the amount realized, whether or not representing gain, may be ordinary income to you. Should the IRS successfully contest some positions we take, you could recognize more gain on the sale of units than would be the case under those positions, without the benefit of decreased income in prior years. Also, if you sell your units, you may incur a tax liability in excess of the amount of cash you receive from the sale.

***Tax-exempt entities, regulated investment companies and foreign persons face unique tax issues from owning common units that may result in adverse tax consequences to them.***

Investment in common units by tax-exempt entities, such as individual retirement accounts (known as IRAs), regulated investment companies (known as mutual funds) and foreign persons, raises issues unique to them. For example, virtually all of our income allocated to organizations exempt from federal income tax, including individual retirement accounts and other retirement plans, will be unrelated business taxable income and will be taxable to them. Very little of our income will be qualifying income to a regulated investment company or mutual fund. Distributions to foreign persons will be reduced by withholding taxes at the highest effective U.S. federal income tax rate for individuals, and foreign persons will be required to file federal income tax returns and pay tax on their share of our taxable income.

***We are registered as a tax shelter. This may increase the risk of an IRS audit of us or a unitholder.***

We are registered with the IRS as a "tax shelter." Our tax shelter registration number is 01036000014. The IRS requires that some types of entities, including some partnerships, register as "tax shelters" in response to the perception that they claim tax benefits that the IRS may believe to be unwarranted. As a result, we may be audited by the IRS and tax adjustments could be made. Any unitholder owning less than a 1% profits interest in us has very limited rights to participate in the income tax audit process. Further, any adjustments in our tax returns will lead to adjustments in our unitholders' tax returns and may lead to audits of unitholders' tax returns and adjustments of items unrelated to us. You will bear the cost of any expense incurred in connection with an examination of your personal tax return.

*We will treat each purchaser of common units as having the same tax benefits without regard to the units purchased. The IRS may challenge this treatment, which could adversely affect the value of our common units.*

Because we cannot match transferors and transferees of common units, we adopt depreciation and amortization positions that do not conform with all aspects of final Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to you. It also could affect the timing of these tax benefits or the amount of gain from your sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to your tax returns. Please read "Material Tax Consequences Uniformity of Units" for a further discussion of the effect of the depreciation and amortization positions we adopt.

*You will likely be subject to state and local taxes in states where you do not live as a result of an investment in our common units.*

In addition to federal income taxes, you will likely be subject to other taxes, including state and local income taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property, even if you do not reside in any of those jurisdictions. You will likely be required to file state and local income tax returns and pay state and local income taxes in many or all of the jurisdictions. Further, you may be subject to penalties for failure to comply with those requirements. It is your responsibility to file all United States federal, state and local tax returns. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in the common units.

### FORWARD-LOOKING STATEMENTS

Some of the information included in this prospectus, the accompanying prospectus supplement and the documents we incorporate by reference contains forward-looking statements. These statements use forward-looking words such as "may," "will," "anticipate," "believe," "expect," "project" or other similar words. These statements discuss goals, intentions and expectations as to future trends, plans, events, results of operations or financial condition or state other "forward-looking" information. These statements reflect Magellan Midstream Partners' current views with respect to future events and are subject to various risks, uncertainties and assumptions including, but not limited, to the following:

price trends and overall demand for natural gas liquids, refined petroleum products, natural gas, oil and ammonia in the United States;

weather patterns materially different than historical trends;

development of alternative energy sources;

changes in demand for storage in our petroleum products terminals;

changes in our tariff rates implemented by the FERC and the United States Surface Transportation Board;

shut-downs or cutbacks at major refineries, petrochemical plants, ammonia production facilities or other businesses that use or supply our services;

changes in the throughput on petroleum products pipelines owned and operated by third parties and connected to our petroleum products terminals;

loss of one or all of our three customers on our ammonia pipeline system;

changes in the federal government's policy regarding farm subsidies, which negatively impact the demand for ammonia and reduce the amount of ammonia transported through our ammonia pipeline system;



an increase in the competition our operations encounter;

the occurrence of an operational hazard or unforeseen interruption for which we are not adequately insured;

our ability to integrate any acquired operations into our existing operations;

our ability to successfully identify and close strategic acquisitions and make cost saving changes in operations;

changes in general economic conditions in the United States;

changes in laws and regulations to which we are subject, including tax, environmental and employment laws and regulations;

the cost and effects of legal and administrative claims and proceedings against us or our subsidiaries;

the amount of our indebtedness, which could make us vulnerable to general adverse economic and industry conditions, limit our ability to borrow additional funds, place us at competitive disadvantages compared to our competitors that have less debt or have other adverse consequences;

the condition of the capital markets and equity markets in the United States;

the ability to raise capital in a cost-effective way;

the effect of changes in accounting policies;

the ability to manage rapid growth;

supply disruption; and

global and domestic economic repercussions from terrorist activities and the government's response thereto.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe we have chosen these assumptions or bases in good faith and that they are reasonable. However, we caution you that assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this prospectus, any prospectus supplement and the documents we have incorporated by reference. We will not update these statements unless the securities laws require us to do so.

#### **USE OF PROCEEDS**

The Units representing limited partner interests to be offered and sold using this prospectus will be offered and sold by the selling unitholder named in this prospectus or in any supplement to this prospectus. We will not receive any proceeds from the sale of Units by the selling unitholder.



## DESCRIPTION OF THE COMMON UNITS

### General

The common units represent limited partner interests that entitle the holders to participate in our cash distributions and to exercise the rights and privileges available to limited partners under our partnership agreement. For a description of the relative rights and preferences of holders of common units, holders of subordinated units, holders of Class B common units and our general partner in and to cash distributions, see "Cash Distribution Policy" in this prospectus.

Our outstanding common units are listed in the New York Stock Exchange, or NYSE, under the symbol "MMP."

The transfer agent and registrar for our common units is Bank of New York.

### Status as Limited Partner or Assignee

Except as described below under " Limited Liability," the common units will be fully paid, and unitholders will not be required to make additional capital contributions to us.

### Transfer of Common Units

Each purchaser of common units offered by this prospectus must execute a transfer application whereby the purchaser requests admission as a substituted limited partner and makes representations and agrees to provisions stated in the transfer application. If this action is not taken, a purchaser will not be registered as a record holder of common units on the books of our transfer agent or issued a common unit certificate. Purchasers may hold common units in nominee accounts.

An assignee, pending its admission as a substituted limited partner, is entitled to an interest in us equivalent to that of a limited partner with respect to the right to share in allocations and distributions, including liquidating distributions. Our general partner will vote and exercise other powers attributable to common units owned by an assignee who has not become a substituted limited partner at the written direction of the assignee. Transferees who do not execute and deliver transfer applications will be treated neither as assignees nor as record holders of common units and will not receive distributions, federal income tax allocations or reports furnished to record holders of common units. The only right the transferees will have is the right to admission as a substituted limited partner in respect of the transferred common units upon execution of a transfer application in respect of the common units. A nominee or broker who has executed a transfer application with respect to common units held in street name or nominee accounts will receive distributions and reports pertaining to its common units.

### Limited Liability

Assuming that a limited partner does not participate in the control of our business within the meaning of the Delaware Act and that he otherwise acts in conformity with the provisions of our partnership agreement, his liability under the Delaware Act will be limited, subject to some possible exceptions, generally to the amount of capital he is obligated to contribute to us in respect of his common units plus his share of any undistributed profits and assets.

Under the Delaware Act, a limited partnership may not make a distribution to a partner to the extent that at the time of the distribution, after giving effect to the distribution, all liabilities of the limited partnership, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, exceed the fair value of the assets of the limited partnership.

## Reports and Records

As soon as practicable, but in no event later than 120 days after the close of each fiscal year, our general partner will furnish or make available to each unitholder of record (as of a record date selected by our general partner) an annual report containing our audited financial statements for the past fiscal year. These financial statements will be prepared in accordance with generally accepted accounting principles. In addition, no later than 90 days after the close of each quarter (except the fourth quarter), our general partner will furnish or make available to each unitholder of record (as of a record date selected by our general partner) a report containing our unaudited financial statements and any other information required by law.

Our general partner will use all reasonable efforts to furnish each unitholder of record information reasonably required for tax reporting purposes within 90 days after the close of each fiscal year. Our general partner's ability to furnish this summary tax information will depend on the cooperation of unitholders in supplying information to our general partner. Each unitholder will receive information to assist him in determining his U.S. federal and state and Canadian federal and provincial tax liability and filing his U.S. federal and state and Canadian federal and provincial income tax returns.

A limited partner can, for a purpose reasonably related to the limited partner's interest as a limited partner, upon reasonable demand and at his own expense, have furnished to him:

a current list of the name and last known address of each partner;

a copy of our tax returns;

information as to the amount of cash and a description and statement of the agreed value of any other property or services, contributed or to be contributed by each partner and the date on which each became a partner;

copies of our partnership agreement, our certificate of limited partnership, amendments to either of them and powers of attorney which have been executed under our partnership agreement;

information regarding the status of our business and financial condition; and

any other information regarding our affairs as is just and reasonable.

## Preemptive Rights

None of the holders of common units is entitled to preemptive rights in respect of issuances of securities by us. Our general partner has the right, upon our issuance of any class of partnership securities to third parties, to purchase partnership securities of such class from us on the same terms that we issue such class of partnership securities to those third parties to the extent necessary to maintain the percentage interests of our general partner and its affiliates equal to that which existed immediately prior to our issuance of such class of partnership securities. Moreover, upon the issuance of any additional limited partner interests by us, our general partner is required to make additional capital contributions to maintain its general partner equity interest in us.

## Registration Rights

Subject to the terms and conditions of our partnership agreement, our general partner and its affiliates have the right to cause us to register for resale under the Securities Act and applicable state securities laws any Units that they hold. We are obligated to pay all expenses incidental to the registration, excluding underwriting discounts and commissions.



## DESCRIPTION OF THE CLASS B COMMON UNITS

In connection with our acquisition of Magellan Pipeline Company, formerly Williams Pipe Line Company, our general partner amended our partnership agreement to create a new series of units designated as Class B common units. The Class B common units, together with our common units and subordinated units, represent limited partner interests in us.

### Distributions

Magellan Midstream Holdings, as the holder of the Class B common units, has the same rights as the holders of our common units with respect to distributions and allocations of income, gain, loss and deductions. However, during the period from April 11, 2002 to November 15, 2002, during which the short-term loan we used to finance the acquisition of Magellan Pipeline Company was outstanding, the holder of the Class B common units did not receive distributions of any kind with respect to the Class B common units. Upon our repayment in full of the short-term loan, The Williams Companies, as the holder of the Class B common units at that time, received a distribution of available cash with respect to its Class B common units of \$1.38 for each Class B common unit, which was equal to the distributions of available cash that were paid or declared payable to the common units during the term of the short-term loan.

If by November 12, 2003 the Class B common units have not converted into common units and remain outstanding, distributions are required to be made as though each Class B common unit were 1.15 common units. The increase in distributions would be effective for the entire quarter in which this step-up period begins, and it would reduce the amount of cash available to be distributed to the common unitholders. The purpose of the step-up in distributions is to compensate the holder of the Class B common units for continuing to hold Class B common units for which there is no public market. The increase in distributions terminates upon the approval of our common unitholders to convert the Class B common units into common units.

### Dissolution and Liquidation

The Class B common units have the same rights as the common units upon our dissolution and liquidation, including the right to share in any liquidating distributions. Accordingly, the amount of any liquidating distribution on each Class B common unit will equal 100% of the amount of such distribution on each common unit.

### Voting Rights

The Class B common units have no voting rights, except with respect to amendments to our partnership agreement that would have a material adverse effect on the rights or preferences of the Class B common unit in relation to other classes of partnership interests (including the common units, the subordinated units and the general partnership interest). No Class B common unit is deemed outstanding for the purpose of determining any vote or quorum. However, if our general partner or any of its affiliates (including Magellan Midstream Holdings) pledge any of the Class B common units as collateral to secure indebtedness and such collateral is transferred to the holders of such indebtedness as a result of a default with respect to such indebtedness, each Class B common unit will have voting rights that are identical to the voting rights of the common units and will vote with the common units as a single class on each matter with respect to which the common units are entitled to vote. In addition, the Class B common units are not entitled to vote and are not deemed outstanding for purposes of determining a quorum with respect to matters in which the requisite vote is determined by NYSE listing rules. Each Class B common unit is entitled to one vote on each matter with respect to which the Class B common units are entitled to vote.

### **Redemption Rights**

We have the right to redeem the Class B common units for cash by giving 30 day written notice to the holders of the Class B common units. The terms of the Class B common units allow us to redeem the Class B common units for cash based on the 20-day average closing price of the common units prior to the redemption date. We have not elected to redeem the Class B common units.

### **Preemptive Rights**

Like the holders of the common units, the holders of Class B common units are not entitled to preemptive rights in respect of issuances of securities by us. For a description of our general partner's preemptive rights, see "Description of the Common Units Preemptive Rights."

## **DESCRIPTION OF THE SUBORDINATED UNITS**

The subordinated units represent a separate class of limited partner interests in us, and the rights of holders of subordinated units to participate in distributions to partners differ from, and are subordinated to, the rights of the holders of common units. For any given quarter, any available cash will first be distributed to the general partner and to the holders of common units and Class B common units, until the holders of common units and Class B common units have received the minimum quarterly distribution plus any arrearages, and then will be distributed to the holders of subordinated units. Please read "Cash Distributions."

### **Conversion of Subordinated Units**

The subordination period will generally extend until the first day of any quarter beginning after December 31, 2005, in which each of the following events occurs:

- (1) distributions of available cash from operating surplus on the common units, Class B common units and the subordinated units equal or exceed the sum of the minimum quarterly distributions on all of the outstanding common units, Class B common units and subordinated units for each of the three non-overlapping four-quarter periods immediately preceding that date;
- (2) the adjusted operating surplus generated during each of the three immediately preceding non-overlapping four-quarter periods equals or exceeds the sum of the minimum quarterly distributions on all of the outstanding common units, Class B common units and subordinated units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods; and
- (3) there are no arrearages in payment of the minimum quarterly distribution on the common units.

Before the end of the subordination period, 25% of the subordinated units (up to 1,419,923 subordinated units) will convert early into common units on a one-for-one basis on the first day after the record date established for the distribution for any quarter ending on or after December 31, 2003, and 25% of the subordinated units (up to 1,419,923 subordinated units) will convert early into common units on a one-for-one basis on the first day after the record date established for the distribution for any quarter ending on or after December 31, 2004, if at the end of the applicable quarter each of the following three events occurs:

- (1) distributions of available cash from operating surplus on the common units and the subordinated units equal or exceed the sum of the minimum quarterly distributions on all of the outstanding common units and subordinated units for each of the three non-overlapping four-quarter periods immediately preceding that date;

- (2) the adjusted operating surplus generated during each of the three immediately preceding non-overlapping four-quarter periods equals or exceeds the sum of the minimum quarterly distributions on all of the outstanding common units and subordinated units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods; and
- (3) there are no arrearages in payment of the minimum quarterly distribution on the common units;

provided, however, that the early conversion of the second 25% of the subordinated units may not occur until at least one year following the early conversion of the first 25% of the subordinated units.

Upon expiration of the subordination period, all remaining subordinated units will convert into common units on a one-for-one basis and will then participate, pro rata, with the other common units in distributions of available cash. In addition, if Magellan GP, LLC is removed as our general partner under circumstances where cause does not exist and units held by the general partner and its affiliates are not voted in favor of that removal:

the subordination period will end and all outstanding subordinated units will immediately convert into common units on a one-for-one basis;

any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and

the general partner will have the right to convert its general partner interest and its incentive distribution rights into common units or to receive cash in exchange for those interests.

### Limited Voting Rights

Holders of subordinated units sometimes vote as a single class together with the common units and sometimes vote as a class separate from the holders of common units. Holders of subordinated units, like holders of common units and Class B common units, have very limited voting rights. In addition, the subordinated units generally have reduced voting rights equal to one-half vote for each unit owned. During the subordination period, common units (i) vote as a single class and (ii) vote together with subordinated units as a class on the following matters (for the following matters, each common unit shall count as one unit and have one vote and each subordinated unit will count as one-half of a unit and have one-half of a vote):

- (1) a sale or exchange of all or substantially all of our assets;
- (2) the election of a successor general partner in connection with the removal or withdrawal of the general partner;
- (3) dissolution or reconstitution;
- (4) a merger;
- (5) issuance of limited partner interests in some circumstances; and
- (6) some amendments to the partnership agreement, including any amendment that would cause us to be treated as an association taxable as a corporation.

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The subordinated units are not entitled to vote on approval of the withdrawal of the general partner or the transfer by the general partner of its general partner interest or incentive distribution rights under some circumstances. Removal of the general partner requires:

a 66<sup>2</sup>/<sub>3</sub>% vote of all outstanding units voting as a single class (for this purpose, each common unit shall count as one unit and have one vote and each subordinated unit will count as one-half of a unit and have one-half of a vote); and

the election of a successor general partner by the holders of a majority of the outstanding common units and subordinated units, voting as separate classes.

Under the partnership agreement, the general partner generally will be permitted to effect amendments to the partnership agreement that do not materially adversely affect unitholders without the approval of any unitholders.

### **Distributions Upon Liquidation**

If we liquidate during the subordination period, in some circumstances holders of outstanding common units and Class B common units will be entitled to receive more liquidating distributions per unit than holders of outstanding subordinated units. The per unit difference will depend upon the amount of gain or loss that we recognize in liquidating our assets. Following conversion of the subordinated units into common units, all units will be treated the same upon liquidation.

## **CASH DISTRIBUTIONS**

### **Distributions of Available Cash**

*General.* Within approximately 45 days after the end of each quarter, we will distribute all of our available cash to unitholders of record on the applicable record date.

*Definition of Available Cash.* Available cash generally means, for each fiscal quarter, all cash on hand at the end of the quarter:

less the amount of cash that the general partner determines in its reasonable discretion is necessary or appropriate to:

provide for the proper conduct of our business;

comply with applicable law, any of our debt instruments, or other agreements; or

provide funds for distributions to our unitholders and to our general partner for any one or more of the next four quarters;

plus all cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter. Working capital borrowings are generally borrowings that are made under our credit facility and in all cases are used solely for working capital purposes or to pay distributions to partners.

*Intent to Distribute the Minimum Quarterly Distribution.* We intend to distribute to holders of common units, Class B common units and subordinated units on a quarterly basis at least the minimum quarterly distribution of \$0.525 per quarter or \$2.10 per year to the extent we have sufficient cash from our operations after the establishment of cash reserves and the payment of fees and expenses, including payments to our general partner. However, there is no guarantee that we will pay the minimum quarterly distribution on the common units in any quarter, and we will be prohibited from making any distributions to unitholders if it would cause an event of default, or an event of default is existing, under our debt instruments.

### **Operating Surplus, Capital Surplus and Adjusted Operating Surplus**

*General.* All cash distributed to unitholders will be characterized either as operating surplus or capital surplus. We distribute available cash from operating surplus differently than available cash from capital surplus.

*Definition of Operating Surplus.* For any period, operating surplus generally means:

our cash balance on the closing date of our initial public offering; plus

\$15.0 million; plus

all of our cash receipts since the closing of our initial public offering, excluding cash from borrowings that are not working capital borrowings, sales of equity and debt securities and sales or other dispositions of assets outside the ordinary course of business; plus

working capital borrowings made after the end of a quarter but before the date of determination of operating surplus for the quarter; less

all of our operating expenditures since the closing of our initial public offering, including the repayment of working capital borrowings, but not the repayment of other borrowings, and including maintenance capital expenditures; less

the amount of cash reserves that the general partner deems necessary or advisable to provide funds for future operating expenditures.

*Definition of Capital Surplus.* Capital surplus will generally be generated only by:

borrowings other than working capital borrowings;

sales of debt and equity securities; and

sales or other disposition of assets for cash, other than inventory, accounts receivable and other current assets sold in the ordinary course of business or as part of normal retirements or replacements of assets.

*Characterization of Cash Distributions.* We will treat all available cash distributed as coming from operating surplus until the sum of all available cash distributed since we began operations equals the operating surplus as of the most recent date of determination of available cash. We will treat any amount distributed in excess of operating surplus, regardless of its source, as capital surplus. We do not anticipate that we will make any distributions from capital surplus.

*Definition of Adjusted Operating Surplus.* Adjusted operating surplus is intended to reflect the cash generated from operations during a particular period and therefore excludes net increases in working capital borrowings and net drawdowns of reserves of cash generated in prior periods.

Adjusted operating surplus for any period generally means:

operating surplus generated with respect to that period; less



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any net increase in working capital borrowings with respect to that period; less

any net reduction in cash reserves for operating expenditures with respect to that period not relating to an operating expenditure made with respect to that period; plus

any net decrease in working capital borrowings with respect to that period; plus

any net increase in cash reserves for operating expenditures with respect to that period required by any debt instrument for the repayment of principal, interest or premium.

## Subordination Period

*General.* During the subordination period, the holders of our common units and Class B common units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of \$0.525 per unit, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. The purpose of the subordinated units is to increase the likelihood that during the subordination period there will be available cash to be distributed on the common units and Class B common units.

*Definition of Subordination Period.* The subordination period will extend until the first day of any quarter beginning after December 31, 2005 that each of the following tests are met:

distributions of available cash from operating surplus on all outstanding units equaled or exceeded the minimum quarterly distribution for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;

the adjusted operating surplus generated during each of the three immediately preceding non-overlapping four-quarter periods equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods; and

there are no arrearages in payment of the minimum quarterly distribution on the common units.

*Early Conversion of Subordinated Units.* Before the end of the subordination period, 50% of the subordinated units, or up to 2,839,847 subordinated units, may convert into common units on a one-for-one basis on the first day after the record date established for the distribution for any quarter ending on or after:

December 31, 2003 with respect to 25% of the subordinated units; and

December 31, 2004 with respect to 25% of the subordinated units.

The early conversions will occur if at the end of the applicable quarter each of the following three tests are met:

distributions of available cash from operating surplus on each of the outstanding common units and subordinated units equaled or exceeded the minimum quarterly distribution for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;

the adjusted operating surplus generated during each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units and subordinated units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods; and

there are no arrearages in payment of the minimum quarterly distribution on the common units.

However, the early conversion of the second 25% of the subordinated units may not occur until at least one year following the early conversion of the first 25% of the subordinated units.

*Effect of Expiration of the Subordination Period.* Upon expiration of the subordination period, each outstanding subordinated unit will convert into one common unit and will then participate pro rata with the other common units in distributions of available cash. In addition, if the unitholders remove our



general partner other than for cause and units held by the general partner and its affiliates are not voted in favor of this removal:

the subordination period will end and each subordinated unit will immediately convert into one common unit;

any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and

the general partner will have the right to convert its general partner interest and its incentive distribution rights into common units or to receive cash in exchange for those interests.

#### **Distributions of Available Cash From Operating Surplus During the Subordination Period**

We will make distributions of available cash from operating surplus for any quarter during the subordination period in the following manner:

*First*, 98% to common unitholders and Class B common unitholders, pro rata, and 2% to the general partner until we distribute for each outstanding common unit and Class B common unit an amount equal to the minimum quarterly distribution for that quarter;

*Second*, 98% to the common unitholders and Class B common unitholders, pro rata, and 2% to the general partner until we distribute for each outstanding common unit and Class B common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on the common units and Class B common units for any prior quarters during the subordination period;

*Third*, 98% to the subordinated unitholders, pro rata, and 2% to the general partner until we distribute for each subordinated unit an amount equal to the minimum quarterly distribution for that quarter; and

*Thereafter*, in the manner described in " Incentive Distribution Rights" below.

#### **Distributions of Available Cash From Operating Surplus After the Subordination Period**

We will make distributions of available cash from operating surplus for any quarter after the subordination period in the following manner:

*First*, 98% to all unitholders, pro rata, and 2% to the general partner until we distribute for each outstanding unit an amount equal to the minimum quarterly distribution for that quarter; and

*Thereafter*, in the manner described in " Incentive Distribution Rights" below.

#### **Incentive Distribution Rights**

Incentive distribution rights represent the right to receive an increasing percentage of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. Our general partner currently holds the incentive distribution rights, but may transfer these rights separately from its general partner interest, subject to restrictions in the partnership agreement.

If, for any quarter:

we have distributed available cash from operating surplus to the common and subordinated unitholders in an amount equal to the minimum quarterly distribution; and

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we have distributed available cash from operating surplus on outstanding common units in an amount necessary to eliminate any cumulative arrearages in payment of the minimum quarterly distribution; then, we will distribute any additional available cash from operating surplus for that quarter among the unitholders and the general partner in the following manner:

*First*, 98% to all unitholders, pro rata, and 2% to the general partner, until each unitholder receives a total of \$0.578 per unit for that quarter (the "first target distribution");

*Second*, 85% to all unitholders, pro rata, and 15% to the general partner, until each unitholder receives a total of \$0.656 per unit for that quarter (the "second target distribution");

*Third*, 75% to all unitholders, pro rata, and 25% to the general partner, until each unitholder receives a total of \$0.788 per unit for that quarter (the "third target distribution"); and

*Thereafter*, 50% to all unitholders, pro rata, and 50% to the general partner.

In each case, the amount of the target distribution set forth above is exclusive of any distributions to common unitholders to eliminate any cumulative arrearages in payment of the minimum quarterly distribution.

### Percentage Allocations of Available Cash From Operating Surplus

The following table illustrates the percentage allocations of the additional available cash from operating surplus between the unitholders and our general partner up to the various target distribution levels. The amounts set forth under "Marginal Percentage Interest in Distributions" are the percentage interests of our general partner and the unitholders in any available cash from operating surplus we distribute up to and including the corresponding amount in the column "Total Quarterly Distribution Target Amount," until available cash from operating surplus we distribute reaches the next target distribution level, if any. The percentage interests shown for the unitholders and the general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution.

	Total Quarterly Distribution Target Amount	Marginal Percentage Interest In Distributions	
		Unitholders	General Partner
Minimum Quarterly Distribution	\$0.525	98%	2%
First Target Distribution	up to \$0.578	98%	2%
Second Target Distribution	above \$0.578 up to \$0.656	85%	15%
Third Target Distribution	above \$0.656 up to \$0.788	75%	25%
Thereafter	above \$0.788	50%	50%

### Distributions From Capital Surplus

*How Distributions from Capital Surplus Will Be Made.* We will make distributions of available cash from capital surplus in the following manner:

*First*, 98% to all unitholders, pro rata, and 2% to the general partner, until we distribute for each common unit, an amount of available cash from capital surplus equal to the initial public offering price;

*Second*, 98% to the common unitholders and Class B common unitholders pro rata, and 2% to the general partner, until we distribute for each common unit that was issued in the offering, an amount of available cash from capital surplus equal to any unpaid arrearages in payment of the minimum quarterly distribution on the common units; and



*Thereafter*, we will make all distributions of available cash from capital surplus as if they were from operating surplus.

*Effect of a Distribution from Capital Surplus.* The partnership agreement treats a distribution of capital surplus as the repayment of the unit price from our initial public offering, which is a return of capital. The initial public offering price less any distributions of capital surplus per unit is referred to as the unrecovered initial unit price. Each time a distribution of capital surplus is made, the minimum quarterly distribution and the target distribution levels will be reduced in the same proportion as the corresponding reduction in the unrecovered initial unit price. Because distributions of capital surplus will reduce the minimum quarterly distribution, after any of these distributions are made, it may be easier for the general partner to receive incentive distributions and for the subordinated units to convert into common units. However, any distribution of capital surplus before the unrecovered initial unit price is reduced to zero cannot be applied to the payment of the minimum quarterly distribution or any arrearages.

Once we distribute capital surplus on a unit issued in this offering in an amount equal to the initial unit price, we will reduce the minimum quarterly distribution and the target distribution levels to zero and we will make all future distributions from operating surplus, with 50% being paid to the holders of units, 48% to the holders of the incentive distribution rights and 2% to the general partner.

### **Adjustment to the Minimum Quarterly Distribution and Target Distribution Levels**

In addition to adjusting the minimum quarterly distribution and target distribution levels to reflect a distribution of capital surplus, if we combine our units into fewer units or subdivide our units into a greater number of units, we will proportionately adjust:

the minimum quarterly distribution;

target distribution levels;

unrecovered initial unit price;

the number of common units issuable during the subordination period without a unitholder vote; and

the number of common units into which a subordinated unit is convertible.

For example, if a two-for-one split of the common units should occur, the minimum quarterly distribution, the target distribution levels and the unrecovered initial unit price would each be reduced to 50% of its initial level. We will not make any adjustment by reason of the issuance of additional units for cash or property.

In addition, if legislation is enacted or if existing law is modified or interpreted in a manner that causes us to become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes, we will reduce the minimum quarterly distribution and the target distribution levels by multiplying the same by one minus the sum of the highest marginal federal corporate income tax rate that could apply and any increase in the effective overall state and local income tax rates. For example, if we became subject to a maximum marginal federal, and effective state and local income tax rate of 38%, then the minimum quarterly distribution and the target distributions levels would each be reduced to 62% of their previous levels.

### **Distributions of Cash Upon Liquidation**

If we dissolve in accordance with the partnership agreement, we will sell or otherwise dispose of our assets in a process called a liquidation. We will first apply the proceeds of liquidation to the payment of our creditors. We will distribute any remaining proceeds to the unitholders and the general



partner, in accordance with their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of our assets in liquidation.

The allocations of gain and loss upon liquidation are intended, to the extent possible, to entitle the holders of outstanding common units and Class B common units to a preference over the holders of outstanding subordinated units upon our liquidation, to the extent required to permit common unitholders and Class B common unitholders to receive their unrecovered initial unit price plus the minimum quarterly distribution for the quarter during which liquidation occurs plus any unpaid arrearages in payment of the minimum quarterly distribution on the common units and Class B common units. However, there may not be sufficient gain upon our liquidation to enable the holder of common units or Class B common units to fully recover all of these amounts, even though there may be cash available for distribution to the holders of subordinated units. Any further net gain recognized upon liquidation will be allocated in a manner that takes into account the incentive distribution rights of the general partner.

*Manner of Adjustments for Gain.* The manner of the adjustment is set forth in the partnership agreement. If our liquidation occurs before the end of the subordination period, we will allocate any gain to the partners in the following manner:

*First*, to the general partner and the holders of units who have negative balances in their capital accounts to the extent of and in proportion to those negative balances;

*Second*, 98% to the common unitholders and Class B common unitholders, pro rata, and 2% to the general partner, until the capital account for each common unit is equal to the sum of:

- (1) the unrecovered initial unit price for that common unit; plus
- (2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs; plus
- (3) any unpaid arrearages in payment of the minimum quarterly distribution on that common unit;

*Third*, 98% to the subordinated unitholders, pro rata, and 2% to the general partner, until the capital account for each subordinated unit is equal to the sum of:

- (1) the unrecovered initial unit price on that subordinated unit; and
- (2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs;

*Fourth*, 98% to all unitholders, pro rata, and 2% to the general partner, pro rata, until we allocate under this paragraph an amount per unit equal to:

- (1) the sum of the excess of the first target distribution per unit over the minimum quarterly distribution per unit for each quarter of our existence; less
- (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the minimum quarterly distribution per unit that we distributed 98% to the units, pro rata, and 2% to the general partner, pro rata, for each quarter of our existence;

*Fifth*, 85% to all unitholders, pro rata, and 15% to the general partner, until we allocate under this paragraph an amount per unit equal to:

- (1) the sum of the excess of the second target distribution per unit over the first target distribution per unit for each quarter of our existence; less



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(2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the first target distribution per unit that we distributed 85% to the unitholders, pro rata, and 15% to the general partner for each quarter of our existence;

*Sixth*, 75% to all unitholders, pro rata, and 25% to the general partner, until we allocate under this paragraph an amount per unit equal to:

(1) the sum of the excess of the third target distribution per unit over the second target distribution per unit for each quarter of our existence; less

(2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the second target distribution per unit that we distributed 75% to the unitholders, pro rata, and 25% to the general partner for each quarter of our existence;

*Thereafter*, 50% to all unitholders, pro rata, and 50% to the general partner.

If the liquidation occurs after the end of the subordination period, the distinction between common units and subordinated units will disappear, so that clause (3) of the second bullet point above and all of the third bullet point above will no longer be applicable.

*Manner of Adjustments for Losses.* Upon our liquidation, we will generally allocate any loss to the general partner and the unitholders in the following manner:

*First*, 98% to holders of subordinated units in proportion to the positive balances in their capital accounts and 2% to the general partner until the capital accounts of the holders of the subordinated units have been reduced to zero;

*Second*, 98% to the holders of common units and Class B common units in proportion to the positive balances in their capital accounts and 2% to the general partner until the capital accounts of the common unitholders and Class B common unitholders have been reduced to zero; and

*Thereafter*, 100% to the general partner.

If the liquidation occurs after the end of the subordination period, the distinction between common units, Class B common units and subordinated units will disappear, so that all of the first bullet point above will no longer be applicable.

*Adjustments to Capital Accounts.* We will make adjustments to capital accounts upon the issuance of additional units. In doing so, we will allocate any unrealized and, for tax purposes, unrecognized gain or loss resulting from the adjustments to the unitholders and the general partner in the same manner as we allocate gain or loss upon liquidation. In the event that we make positive adjustments to the capital accounts upon the issuance of additional units, we will allocate any later negative adjustments to the capital accounts resulting from the issuance of additional units or upon our liquidation in a manner which results, to the extent possible, in the general partner's capital account balances equaling the amount which they would have been if no earlier positive adjustments to the capital accounts had been made.

### MATERIAL TAX CONSEQUENCES

This section is a summary of the material tax consequences that may be relevant to prospective unitholders who are individual citizens or residents of the United States and, unless otherwise noted in the following discussion, is the opinion of Vinson & Elkins L.L.P., counsel to the general partner and us, insofar as it relates to federal income tax matters. This section is based upon current provisions of the Internal Revenue Code, existing and proposed regulations and current administrative rulings and court decisions, all of which are subject to change. Later changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to "us" or "we" are references to Magellan Midstream Partners.

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This section does not comment on all federal income tax matters affecting us or the unitholders. Moreover, the discussion focuses on unitholders who are individual citizens or residents of the United States and has only limited application to corporations, estates, trusts, nonresident aliens or other unitholders subject to specialized tax treatment, such as tax-exempt institutions, foreign persons, individual retirement accounts (IRAs), real estate investment trusts (REITs) or mutual funds. Accordingly, we recommend that each prospective unitholder consult, and depend on, his own tax advisor in analyzing the federal, state, local and foreign tax consequences particular to him of the ownership or disposition of common units.

All statements as to matters of law and legal conclusions, but not as to factual matters, contained in this section, unless otherwise noted, are the opinion of Vinson & Elkins L.L.P. and are based on the accuracy of the representations we make. An opinion of counsel represents only that counsel's best legal judgment and does not bind the IRS or the courts. Accordingly, the opinions and statements made here may not be sustained by a court if contested by the IRS. Any contest of this sort with the IRS may materially and adversely impact the market for the common units and the prices at which common units trade. In addition, the costs of any contest with the IRS will be borne directly or indirectly by the unitholders and the general partner. Furthermore, the tax treatment of us, or of an investment in us, may be significantly modified by future legislative or administrative changes or court decisions. Any modifications may or may not be retroactively applied.

For the reasons described below, Vinson & Elkins L.L.P. has not rendered an opinion with respect to the following specific federal income tax issues:

- (1) the treatment of a unitholder whose common units are loaned to a short seller to cover a short sale of common units (please read " Tax Consequences of Unit Ownership Treatment of Short Sales");
- (2) whether our monthly convention for allocating taxable income and losses is permitted by existing Treasury regulations (please read " Disposition of Common Units Allocations Between Transferors and Transferees"); and
- (3) whether our method for depreciating Section 743 adjustments is sustainable (please read " Tax Consequences of Unit Ownership Section 754 Election").

### Partnership Status

A partnership is not a taxable entity and incurs no federal income tax liability. Instead, each partner of a partnership is required to take into account his share of items of income, gain, loss and deduction of the partnership in computing his federal income tax liability, regardless of whether cash distributions are made to him by the partnership. Distributions by a partnership to a partner are generally not taxable unless the amount of cash distributed is in excess of the partner's adjusted basis in his partnership interest.

Section 7704 of the Internal Revenue Code provides that publicly-traded partnerships will, as a general rule, be taxed as corporations. However, an exception, referred to as the "Qualifying Income Exception," exists with respect to publicly-traded partnerships of which 90% or more of the gross income for every taxable year consists of "qualifying income." Qualifying income includes income and gains derived from the transportation, storage and processing of crude oil, natural gas and products thereof and fertilizer. Other types of qualifying income include interest (other than from a financial business), dividends, gains from the sale of real property and gains from the sale or other disposition of assets held for the production of income that otherwise constitutes qualifying income. We estimate that less than 8% of our current income is not qualifying income; however, this estimate could change from time to time. Based upon and subject to this estimate, the factual representations made by us and the

general partner and a review of the applicable legal authorities, Vinson & Elkins L.L.P. is of the opinion that at least 90% of our current gross income constitutes qualifying income.

The IRS has made no determination as to our status as partnerships for federal income tax purposes. Instead, we will rely on the opinion of Vinson & Elkins L.L.P. that, based upon the Internal Revenue Code, its regulations, published revenue rulings and court decisions and the representations described below, Magellan Midstream Partners will be classified as a partnership for federal income tax purposes.

In rendering its opinion, Vinson & Elkins L.L.P. has relied on factual representations made by us and our general partner. The representations made by us and our general partner upon which counsel has relied are:

- (a) Neither we nor the operating partnership has elected or will elect to be treated as a corporation; and
- (b) For each taxable year, more than 90% of our gross income has been and will be income that our counsel has opined or will opine is "qualifying income" within the meaning of Section 7704(d) of the Internal Revenue Code.

If we fail to meet the Qualifying Income Exception, other than a failure which is determined by the IRS to be inadvertent and which is cured within a reasonable time after discovery, we will be treated as if we had transferred all of our assets, subject to liabilities, to a newly formed corporation, on the first day of the year in which we fail to meet the Qualifying Income Exception, in return for stock in that corporation, and then distributed that stock to the unitholders in liquidation of their interests in us. This contribution and liquidation should be tax-free to unitholders and us so long as we, at that time, do not have liabilities in excess of the tax basis of our assets. Thereafter, we would be treated as a corporation for federal income tax purposes.

If we were taxable as a corporation in any taxable year, either as a result of a failure to meet the Qualifying Income Exception or otherwise, our items of income, gain, loss and deduction would be reflected only on our tax return rather than being passed through to the unitholders, and our net income would be taxed to us at corporate rates. In addition, any distribution made to a unitholder would be treated as either taxable dividend income, to the extent of our current or accumulated earnings and profits, or, in the absence of earnings and profits, a nontaxable return of capital, to the extent of the unitholder's tax basis in his common units, or taxable capital gain, after the unitholder's tax basis in his common units is reduced to zero. Accordingly, taxation as a corporation would result in a material reduction in a unitholder's cash flow and after-tax return and thus would likely result in a substantial reduction of the value of the units.

The remainder of this section is based on Vinson & Elkins L.L.P.'s opinion that Magellan Midstream Partners will be classified as a partnership for federal income tax purposes.

#### **Limited Partner Status**

Unitholders who have become limited partners of Magellan Midstream Partners will be treated as partners of Magellan Midstream Partners for federal income tax purposes. Also:

- (a) assignees who have executed and delivered transfer applications, and are awaiting admission as limited partners, and
- (b) unitholders whose common units are held in street name or by a nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their common units, will be treated as partners of Magellan Midstream Partners for federal income tax purposes.

As there is no direct authority addressing assignees of common units who are entitled to execute and deliver transfer applications and become entitled to direct the exercise of attendant rights, but who fail to execute and deliver transfer applications, the opinion of Vinson & Elkins L.L.P. does not extend to these persons. Furthermore, a purchaser or other transferee of common units who does not execute and deliver a transfer application may not receive some federal income tax information or reports furnished to record holders of common units unless the common units are held in a nominee or street name account and the nominee or broker has executed and delivered a transfer application for those common units.

A beneficial owner of common units whose units have been transferred to a short seller to complete a short sale would appear to lose his status as a partner with respect to those units for federal income tax purposes. Please read " Tax Consequences of Unit Ownership Treatment of Short Sales."

Income, gain, deductions or losses would not appear to be reportable by a unitholder who is not a partner for federal income tax purposes, and any cash distributions received by a unitholder who is not a partner for federal income tax purposes would therefore be fully taxable as ordinary income. These holders are urged to consult their own tax advisors with respect to their status as partners in Magellan Midstream Partners for federal income tax purposes.

### **Tax Consequences of Unit Ownership**

*Flow-through of Taxable Income.* We will not pay any federal income tax. Instead, each unitholder will be required to report on his income tax return his share of our income, gains, losses and deductions without regard to whether corresponding cash distributions are received by him. Consequently, we may allocate income to a unitholder even if he has not received a cash distribution. Each unitholder will be required to include in income his allocable share of our income, gains, losses and deductions for our taxable year ending with or within his taxable year. Our taxable year ends on December 31.

*Treatment of Distributions.* Distributions by us to a unitholder generally will not be taxable to the unitholder for federal income tax purposes to the extent of his tax basis in his common units immediately before the distribution. Our cash distributions in excess of a unitholder's tax basis generally will be considered to be gain from the sale or exchange of the common units, taxable in accordance with the rules described under " Disposition of Common Units" below. Any reduction in a unitholder's share of our liabilities for which no partner, including the general partner, bears the economic risk of loss, known as "nonrecourse liabilities," will be treated as a distribution of cash to that unitholder. To the extent our distributions cause a unitholder's "at risk" amount to be less than zero at the end of any taxable year, he must recapture any losses deducted in previous years. Please read " Limitations on Deductibility of Losses."

A decrease in a unitholder's percentage interest in us because of our issuance of additional common units will decrease his share of our nonrecourse liabilities, and thus will result in a corresponding deemed distribution of cash. A non-pro rata distribution of money or property may result in ordinary income to a unitholder, regardless of his tax basis in his common units, if the distribution reduces the unitholder's share of our "unrealized receivables," including depreciation recapture, and/or substantially appreciated "inventory items," both as defined in the Internal Revenue Code, and collectively, "Section 751 Assets." To that extent, he will be treated as having been distributed his proportionate share of the Section 751 Assets and having exchanged those assets with us in return for the non-pro rata portion of the actual distribution made to him. This latter deemed exchange will generally result in the unitholder's realization of ordinary income. That income will equal the excess of (1) the non-pro rata portion of that distribution over (2) the unitholder's tax basis for the share of Section 751 Assets deemed relinquished in the exchange.

*Basis of Common Units.* A unitholder's initial tax basis for his common units will be the amount he paid for the common units plus his share of our nonrecourse liabilities. That basis will be increased by his share of our income and by any increases in his share of our nonrecourse liabilities. That basis will be decreased, but not below zero, by distributions from us, by the unitholder's share of our losses, by any decreases in his share of our nonrecourse liabilities and by his share of our expenditures that are not deductible in computing taxable income and are not required to be capitalized. A unitholder will have no share of our debt which is recourse to the general partner, but will have a share, generally based on his share of profits, of our nonrecourse liabilities. Please read " Disposition of Common Units Recognition of Gain or Loss."

*Limitations on Deductibility of Losses.* The deduction by a unitholder of his share of our losses will be limited to the tax basis in his units and, in the case of an individual unitholder or a corporate unitholder, if more than 50% of the value of the corporate unitholder's stock is owned directly or indirectly by five or fewer individuals or some tax-exempt organizations, to the amount for which the unitholder is considered to be "at risk" with respect to our activities, if that is less than his tax basis. A unitholder must recapture losses deducted in previous years to the extent that distributions cause his at risk amount to be less than zero at the end of any taxable year. Losses disallowed to a unitholder or recaptured as a result of these limitations will carry forward and will be allowable to the extent that his tax basis or at risk amount, whichever is the limiting factor, is subsequently increased. Upon the taxable disposition of a unit, any gain recognized by a unitholder can be offset by losses that were previously suspended by the at risk limitation but may not be offset by losses suspended by the basis limitation. Any excess loss above that gain previously suspended by the at risk or basis limitations is no longer utilizable.

In general, a unitholder will be at risk to the extent of the tax basis of his units, excluding any portion of that basis attributable to his share of our nonrecourse liabilities, reduced by any amount of money he borrows to acquire or hold his units, if the lender of those borrowed funds owns an interest in us, is related to the unitholder or can look only to the units for repayment. A unitholder's at risk amount will increase or decrease as the tax basis of the unitholder's units increases or decreases, other than tax basis increases or decreases attributable to increases or decreases in his share of our nonrecourse liabilities.

The passive loss limitations generally provide that individuals, estates, trusts and some closely-held corporations and personal service corporations can deduct losses from passive activities, which are generally activities in which the taxpayer does not materially participate, only to the extent of the taxpayer's income from those passive activities. The passive loss limitations are applied separately with respect to each publicly-traded partnership. Consequently, any losses we generate will only be available to offset our passive income generated in the future and will not be available to offset income from other passive activities or investments, including our investments or investments in other publicly-traded partnerships, or salary or active business income. Passive losses that are not deductible because they exceed a unitholder's share of income we generate may be deducted in full when he disposes of his entire investment in us in a fully taxable transaction with an unrelated party. The passive activity loss rules are applied after other applicable limitations on deductions, including the at risk rules and the basis limitation.

A unitholder's share of our net income may be offset by any suspended passive losses, but it may not be offset by any other current or carryover losses from other passive activities, including those attributable to other publicly-traded partnerships.

*Limitations on Interest Deductions.* The deductibility of a non-corporate taxpayer's "investment interest expense" is generally limited to the amount of that taxpayer's "net investment income." Investment interest expense includes:

interest on indebtedness properly allocable to property held for investment;

our interest expense attributed to portfolio income; and

the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income.

The computation of a unitholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a unit. Net investment income includes gross income from property held for investment and amounts treated as portfolio income under the passive loss rules, less deductible expenses, other than interest, directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment. The IRS has indicated that net passive income from a publicly-traded partnership constitutes investment income for purposes of the limitations on the deductibility of investment interest. In addition, the unitholder's share of our portfolio income will be treated as investment income.

*Entity-Level Collections.* If we are required or elect under applicable law to pay any federal, state or local income tax on behalf of any unitholder or the general partner or any former unitholder, we are authorized to pay those taxes from our funds. That payment, if made, will be treated as a distribution of cash to the partner on whose behalf the payment was made. If the payment is made on behalf of a person whose identity cannot be determined, we are authorized to treat the payment as a distribution to all current unitholders. We are authorized to amend the partnership agreement in the manner necessary to maintain uniformity of intrinsic tax characteristics of units and to adjust later distributions, so that after giving effect to these distributions, the priority and characterization of distributions otherwise applicable under the partnership agreement is maintained as nearly as is practicable. Payments by us as described above could give rise to an overpayment of tax on behalf of an individual partner in which event the partner would be required to file a claim in order to obtain a credit or refund.

*Allocation of Income, Gain, Loss and Deduction.* In general, if we have a net profit, our items of income, gain, loss and deduction will be allocated among the general partner and the unitholders in accordance with their percentage interests in us. At any time that distributions are made to the common units in excess of distributions to the subordinated units, or incentive distributions are made to the general partner, gross income will be allocated to the recipients to the extent of these distributions. If we have a net loss for the entire year, that loss will be allocated first to the general partner and the unitholders in accordance with their percentage interests in us to the extent of their positive capital accounts and, second, to the general partner.

Specified items of our income, gain, loss and deduction will be allocated to account for the difference between the tax basis and fair market value of our assets at the time of an offering, referred to in this discussion as "Contributed Property." The effect of these allocations to a unitholder purchasing common units in our offering will be essentially the same as if the tax basis of our assets were equal to their fair market value at the time of the offering. In addition, items of recapture income will be allocated to the extent possible to the partner who was allocated the deduction giving rise to the treatment of that gain as recapture income in order to minimize the recognition of ordinary income by some unitholders. Finally, although we do not expect that our operations will result in the creation of negative capital accounts, if negative capital accounts nevertheless result, items of our income and gain will be allocated in an amount and manner to eliminate the negative balance as quickly as possible.

An allocation of items of our income, gain, loss or deduction, other than an allocation required by the Internal Revenue Code to eliminate the difference between a partner's "book" capital account, credited with the fair market value of Contributed Property, and "tax" capital account, credited with the tax basis of Contributed Property, referred to in this discussion as the "Book-Tax Disparity", will generally be given effect for federal income tax purposes in determining a partner's share of an item of income, gain, loss or deduction only if the allocation has substantial economic effect. In any other case,



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a partner's share of an item will be determined on the basis of his interest in us, which will be determined by taking into account all the facts and circumstances, including his relative contributions to us, the interests of all the partners in profits and losses, the interest of all the partners in cash flow and other nonliquidating distributions and rights of all the partners to distributions of capital upon liquidation.

Vinson & Elkins L.L.P. is of the opinion that, with the exception of the issues described in " Tax Consequences of Unit Ownership Section 754 Election" and " Disposition of Common Units Allocations Between Transferors and Transferees," allocations under our partnership agreement will be given effect for federal income tax purposes in determining a partner's share of an item of income, gain, loss or deduction.

*Treatment of Short Sales.* A unitholder whose units are loaned to a "short seller" to cover a short sale of units may be considered as having disposed of those units. If so, he would no longer be a partner for those units during the period of the loan and may recognize gain or loss from the disposition. As a result, during this period:

any of our income, gain, loss or deduction with respect to those units would not be reportable by the unitholder;

any cash distributions received by the unitholder as to those units would be fully taxable; and

all of these distributions would appear to be ordinary income.

Vinson & Elkins L.L.P. has not rendered an opinion regarding the treatment of a unitholder where common units are loaned to a short seller to cover a short sale of common units; therefore, unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller should modify any applicable brokerage account agreements to prohibit their brokers from borrowing their units. The IRS has announced that it is actively studying issues relating to the tax treatment of short sales of partnership interests. Please also read " Disposition of Common Units Recognition of Gain or Loss."

*Alternative Minimum Tax.* Each unitholder will be required to take into account his distributive share of any items of our income, gain, loss or deduction for purposes of the alternative minimum tax. The current minimum tax rate for noncorporate taxpayers is 26% on the first \$175,000 of alternative minimum taxable income in excess of the exemption amount and 28% on any additional alternative minimum taxable income. Prospective unitholders are urged to consult with their tax advisors as to the impact of an investment in units on their liability for the alternative minimum tax.

*Tax Rates.* In general, the highest effective United States federal income tax rate for individuals currently is 35% and the maximum United States federal income tax rate for net capital gains of an individual currently is 15% if the asset disposed of was held for more than 12 months at the time of disposition.

*Section 754 Election.* We have made the election permitted by Section 754 of the Internal Revenue Code. That election is irrevocable without the consent of the IRS. The election will generally permit us to adjust a common unit purchaser's tax basis in our assets ("inside basis") under Section 743(b) of the Internal Revenue Code to reflect his purchase price. This election does not apply to a person who purchases common units directly from us. The Section 743(b) adjustment belongs to the purchaser and not to other partners. For purposes of this discussion, a partner's inside basis in our assets will be considered to have two components: (1) his share of our tax basis in our assets ("common basis") and (2) his Section 743(b) adjustment to that basis.

Treasury regulations under Section 743 of the Internal Revenue Code require, if the remedial allocation method is adopted (which we have adopted), a portion of the Section 743(b) adjustment

attributable to recovery property to be depreciated over the remaining cost recovery period for the Section 704(c) built-in gain. Under Treasury Regulation Section 1.167(c)-1(a)(6), a Section 743(b) adjustment attributable to property subject to depreciation under Section 167 of the Internal Revenue Code rather than cost recovery deductions under Section 168 is generally required to be depreciated using either the straight-line method or the 150% declining balance method. Under our partnership agreement, the general partner is authorized to take a position to preserve the uniformity of units even if that position is not consistent with these Treasury regulations. Please read " Tax Treatment of Operations Uniformity of Units."

Although Vinson & Elkins L.L.P. is unable to opine as to the validity of this approach because there is no clear authority on this issue, we intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the common basis of the property, or treat that portion as non-amortizable to the extent attributable to property the common basis of which is not amortizable. This method is consistent with the regulations under Section 743 but is arguably inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6), which is not expected to directly apply to a material portion of our assets. To the extent this Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Treasury regulations and legislative history. If we determine that this position cannot reasonably be taken, we may take a depreciation or amortization position under which all purchasers acquiring units in the same month would receive depreciation or amortization, whether attributable to common basis or a Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our assets. This kind of aggregate approach may result in lower annual depreciation or amortization deductions than would otherwise be allowable to some unitholders. Please read " Tax Treatment of Operations Uniformity of Units."

A Section 754 election is advantageous if the transferee's tax basis in his units is higher than the units' share of the aggregate tax basis of our assets immediately prior to the transfer. In that case, as a result of the election, the transferee would have, among other items, a greater amount of depreciation and depletion deductions and his share of any gain on a sale of our assets would be less. Conversely, a Section 754 election is disadvantageous if the transferee's tax basis in his units is lower than those units' share of the aggregate tax basis of our assets immediately prior to the transfer. Thus, the fair market value of the units may be affected either favorably or unfavorably by the election.

The calculations involved in the Section 754 election are complex and will be made on the basis of assumptions as to the value of our assets and other matters. For example, the allocation of the Section 743(b) adjustment among our assets must be made in accordance with the Internal Revenue Code. The IRS could seek to reallocate some or all of any Section 743(b) adjustment we allocated to our tangible assets to goodwill instead. Goodwill, as an intangible asset, is generally amortizable over a longer period of time or under a less accelerated method than our tangible assets. We cannot assure you that the determinations we make will not be successfully challenged by the IRS and that the deductions resulting from them will not be reduced or disallowed altogether. Should the IRS require a different basis adjustment to be made, and should, in our opinion, the expense of compliance exceed the benefit of the election, we may seek permission from the IRS to revoke our Section 754 election. If permission is granted, a subsequent purchaser of units may be allocated more income than he would have been allocated had the election not been revoked.

### **Tax Treatment of Operations**

*Accounting Method and Taxable Year.* We use the year ending December 31 as our taxable year and the accrual method of accounting for federal income tax purposes. Each unitholder will be required to include in income his share of our income, gain, loss and deduction for our taxable year

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ending within or with his taxable year. In addition, a unitholder who has a taxable year ending on a date other than December 31 and who disposes of all of his units following the close of our taxable year but before the close of his taxable year must include his share of our income, gain, loss and deduction in income for his taxable year, with the result that he will be required to include in income for his taxable year his share of more than one year of our income, gain, loss and deduction. Please read " *Disposition of Common Units Allocations Between Transferors and Transferees.*"

*Tax Basis, Depreciation and Amortization.* The tax basis of our assets will be used for purposes of computing depreciation and cost recovery deductions and, ultimately, gain or loss on the disposition of these assets. The federal income tax burden associated with the difference between the fair market value of our assets and their tax basis immediately prior to an offering will be borne by the general partner, its affiliates and our other unitholders as of that time. Please read " *Tax Consequences of Unit Ownership Allocation of Income, Gain, Loss and Deduction.*"

To the extent allowable, we may elect to use the depreciation and cost recovery methods that will result in the largest deductions being taken in the early years after assets are placed in service. We were not entitled to any amortization deductions with respect to any goodwill conveyed to us on formation. Property we subsequently acquire or construct may be depreciated using accelerated methods permitted by the Internal Revenue Code.

If we dispose of depreciable property by sale, foreclosure, or otherwise, all or a portion of any gain, determined by reference to the amount of depreciation previously deducted and the nature of the property, may be subject to the recapture rules and taxed as ordinary income rather than capital gain. Similarly, a partner who has taken cost recovery or depreciation deductions with respect to property we own will likely be required to recapture some or all of those deductions as ordinary income upon a sale of his interest in us. Please read " *Tax Consequences of Unit Ownership Allocation of Income, Gain, Loss and Deduction*" and " *Disposition of Common Units Recognition of Gain or Loss.*"

The costs incurred in selling our units (called "syndication expenses") must be capitalized and cannot be deducted currently, ratably or upon our termination. There are uncertainties regarding the classification of costs as organization expenses, which we may amortize, and as syndication expenses, which we may not amortize. The underwriting discounts and commissions we incur will be treated as syndication expenses.

*Valuation and Tax Basis of Our Properties.* The federal income tax consequences of the ownership and disposition of units will depend in part on our estimates of the relative fair market values, and the tax bases, of our assets. Although we may from time to time consult with professional appraisers regarding valuation matters, we will make many of the relative fair market value estimates ourselves. These estimates of basis are subject to challenge and will not be binding on the IRS or the courts. If the estimates of fair market value or basis are later found to be incorrect, the character and amount of items of income, gain, loss or deductions previously reported by unitholders might change, and unitholders might be required to adjust their tax liability for prior years and incur interest and penalties with respect to those adjustments.

### **Disposition of Common Units**

*Recognition of Gain or Loss.* Gain or loss will be recognized on a sale of units equal to the difference between the amount realized and the unitholder's tax basis for the units sold. A unitholder's amount realized will be measured by the sum of the cash or the fair market value of other property he receives plus his share of our nonrecourse liabilities. Because the amount realized includes a unitholder's share of our nonrecourse liabilities, the gain recognized on the sale of units could result in a tax liability in excess of any cash received from the sale.

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Prior distributions from us in excess of cumulative net taxable income for a common unit that decreased a unitholder's tax basis in that common unit will, in effect, become taxable income if the common unit is sold at a price greater than the unitholder's tax basis in that common unit, even if the price received is less than his original cost.

Except as noted below, gain or loss recognized by a unitholder, other than a "dealer" in units, on the sale or exchange of a unit held for more than one year will generally be taxable as capital gain or loss. Capital gain recognized by an individual on the sale of units held more than 12 months will generally be taxed at a maximum rate of 15%. A portion of this gain or loss, which will likely be substantial, however, will be separately computed and taxed as ordinary income or loss under Section 751 of the Internal Revenue Code to the extent attributable to assets giving rise to depreciation recapture or other "unrealized receivables" or to "inventory items" we own. The term "unrealized receivables" includes potential recapture items, including depreciation recapture. Ordinary income attributable to unrealized receivables, inventory items and depreciation recapture may exceed net taxable gain realized upon the sale of a unit and may be recognized even if there is a net taxable loss realized on the sale of a unit. Thus, a unitholder may recognize both ordinary income and a capital loss upon a sale of units. Net capital loss may offset capital gains and no more than \$3,000 of ordinary income, in the case of individuals, and may only be used to offset capital gain in the case of corporations.

The IRS has ruled that a partner who acquires interests in a partnership in separate transactions must combine those interests and maintain a single adjusted tax basis for all those interests. Upon a sale or other disposition of less than all of those interests, a portion of that tax basis must be allocated to the interests sold using an "equitable apportionment" method. Treasury regulations allow a selling unitholder who can identify common units transferred with an ascertainable holding period to elect to use the actual holding period of the common units transferred. Thus, according to the ruling, a common unitholder will be unable to select high or low basis common units to sell as would be the case with corporate stock, but, according to the regulations, may designate specific common units sold for purposes of determining the holding period of units transferred. A unitholder electing to use the actual holding period of common units transferred must consistently use that identification method for all subsequent sales or exchanges of common units. A unitholder considering the purchase of additional units or a sale of common units purchased in separate transactions is urged to consult his tax advisor as to the possible consequences of this ruling and application of the Treasury regulations.

Specific provisions of the Internal Revenue Code affect the taxation of some financial products and securities, including partnership interests, by treating a taxpayer as having sold an "appreciated" partnership interest, one in which gain would be recognized if it were sold, assigned or terminated at its fair market value, if the taxpayer or related persons enter(s) into:

a short sale;

an offsetting notional principal contract; or

a futures or forward contract with respect to the partnership interest or substantially identical property.

Moreover, if a taxpayer has previously entered into a short sale, an offsetting notional principal contract or a futures or forward contract with respect to the partnership interest, the taxpayer will be treated as having sold that position if the taxpayer or a related person then acquires the partnership interest or substantially identical property. The Secretary of Treasury is also authorized to issue regulations that treat a taxpayer that enters into transactions or positions that have substantially the same effect as the preceding transactions as having constructively sold the financial position.

*Allocations Between Transferors and Transferees.* In general, our taxable income and losses will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among

the unitholders in proportion to the number of units owned by each of them as of the opening of the applicable exchange on the first business day of the month (the "Allocation Date"). However, gain or loss realized on a sale or other disposition of our assets other than in the ordinary course of business will be allocated among the unitholders on the Allocation Date in the month in which that gain or loss is recognized. As a result, a unitholder transferring units may be allocated income, gain, loss and deduction realized after the date of transfer.

The use of this method may not be permitted under existing Treasury regulations. Accordingly, Vinson & Elkins L.L.P. is unable to opine on the validity of this method of allocating income and deductions between unitholders. If this method is not allowed under the Treasury regulations, or only applies to transfers of less than all of the unitholder's interest, our taxable income or losses might be reallocated among the unitholders. We are authorized to revise our method of allocation between unitholders to conform to a method permitted under future Treasury regulations.

A unitholder who owns units at any time during a quarter and who disposes of them prior to the record date set for a cash distribution for that quarter will be allocated items of our income, gain, loss and deductions attributable to that quarter but will not be entitled to receive that cash distribution.

*Notification Requirements.* A purchaser of units from another unitholder is required to notify us in writing of that purchase within 30 days after the purchase. We are required to notify the IRS of that transaction and to furnish specified information to the transferor and transferee. However, these reporting requirements do not apply to a sale by an individual who is a citizen of the United States and who effects the sale or exchange through a broker.

*Constructive Termination.* We will be considered to have been terminated for tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. A constructive termination results in the closing of our taxable year for all unitholders. In the case of a unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of our taxable year may result in more than 12 months of our taxable income or loss being includable in his taxable income for the year of termination. We would be required to make new tax elections after a termination, including a new election under Section 754 of the Internal Revenue Code, and a termination would result in a deferral of our deductions for depreciation. A termination could also result in penalties if we were unable to determine that the termination had occurred. Moreover, a termination might either accelerate the application of, or subject us to, any tax legislation enacted before the termination.

#### **Uniformity of Units**

Because we cannot match transferors and transferees of units, we must maintain uniformity of the economic and tax characteristics of the units to a purchaser of these units. In the absence of uniformity, we may be unable to completely comply with a number of federal income tax requirements, both statutory and regulatory. A lack of uniformity can result from a literal application of Treasury Regulation Section 1.167(c)-1(a)(6). Any non-uniformity could have a negative impact on the value of the units. Please read " Tax Consequences of Unit Ownership Section 754 Election."

We intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the common basis of that property, or treat that portion as nonamortizable, to the extent attributable to property the common basis of which is not amortizable, consistent with the regulations under Section 743, even though that position may be inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6) which is not expected to directly apply to a material portion of our assets. Please read " Tax Consequences of Unit Ownership Section 754 Election." To the extent that the Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized

Book-Tax Disparity, we will apply the rules described in the Treasury regulations and legislative history. If we determine that this position cannot reasonably be taken, we may adopt a depreciation and amortization position under which all purchasers acquiring units in the same month would receive depreciation and amortization deductions, whether attributable to a common basis or Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our property. If this position is adopted, it may result in lower annual depreciation and amortization deductions than would otherwise be allowable to some unitholders and risk the loss of depreciation and amortization deductions not taken in the year that these deductions are otherwise allowable. This position will not be adopted if we determine that the loss of depreciation and amortization deductions will have a material adverse effect on the unitholders. If we choose not to utilize this aggregate method, we may use any other reasonable depreciation and amortization method to preserve the uniformity of the intrinsic tax characteristics of any units that would not have a material adverse effect on the unitholders. The IRS may challenge any method of depreciating the Section 743(b) adjustment described in this paragraph. If this challenge were sustained, the uniformity of units might be affected, and the gain from the sale of units might be increased without the benefit of additional deductions. Please read "Disposition of Common Units Recognition of Gain or Loss."

### **Tax-Exempt Organizations and Other Investors**

Ownership of units by employee benefit plans, other tax-exempt organizations, non-resident aliens, foreign corporations, other foreign persons and regulated investment companies raises issues unique to those investors and, as described below, may have substantially adverse tax consequences to them.

Employee benefit plans and most other organizations exempt from federal income tax, including individual retirement accounts and other retirement plans, are subject to federal income tax on unrelated business taxable income. Virtually all of our income allocated to a unitholder which is a tax-exempt organization will be unrelated business taxable income and will be taxable to them.

A regulated investment company or "mutual fund" is required to derive 90% or more of its gross income from interest, dividends and gains from the sale of stocks or securities or foreign currency or specified related sources. It is not anticipated that any significant amount of our gross income will include that type of income.

Non-resident aliens and foreign corporations, trusts or estates that own units will be considered to be engaged in business in the United States because of the ownership of units. As a consequence they will be required to file federal tax returns to report their share of our income, gain, loss or deduction and pay federal income tax at regular rates on their share of our net income or gain. Under rules applicable to publicly traded partnerships, we will withhold tax, at the highest effective rate applicable to individuals, from cash distributions made quarterly to foreign unitholders. Each foreign unitholder must obtain a taxpayer identification number from the IRS and submit that number to our transfer agent on a Form W-8BEN or applicable substitute form in order to obtain credit for these withholding taxes. A change in applicable law may require us to change these procedures.

In addition, because a foreign corporation that owns units will be treated as engaged in a United States trade or business, that corporation may be subject to the United States branch profits tax at a rate of 30%, in addition to regular federal income tax, on its share of our income and gain, as adjusted for changes in the foreign corporation's "U.S. net equity," which are effectively connected with the conduct of a United States trade or business. That tax may be reduced or eliminated by an income tax treaty between the United States and the country in which the foreign corporate unitholder is a "qualified resident." In addition, this type of unitholder is subject to special information reporting requirements under Section 6038C of the Internal Revenue Code.

Under a ruling of the IRS, a foreign unitholder who sells or otherwise disposes of a unit will be subject to federal income tax on gain realized on the sale or disposition of that unit to the extent that

this gain is effectively connected with a United States trade or business of the foreign unitholder. Apart from the ruling, a foreign unitholder will not be taxed or subject to withholding upon the sale or disposition of a unit if he has owned less than 5% in value of the units during the five-year period ending on the date of the disposition and if the units are regularly traded on an established securities market at the time of the sale or disposition.

#### **Administrative Matters**

*Information Returns and Audit Procedures.* We intend to furnish to each unitholder, within 90 days after the close of each calendar year, specific tax information, including a Schedule K-1, which describes his share of our income, gain, loss and deduction for our preceding taxable year. In preparing this information, which will not be reviewed by counsel, we will take various accounting and reporting positions, some of which have been mentioned earlier, to determine his share of income, gain, loss and deduction. We cannot assure you that those positions will yield a result that conforms to the requirements of the Internal Revenue Code, regulations or administrative interpretations of the IRS. Neither we nor counsel can assure prospective unitholders that the IRS will not successfully contend in court that those positions are impermissible. Any challenge by the IRS could negatively affect the value of the units.

The IRS may audit our federal income tax information returns. Adjustments resulting from an IRS audit may require each unitholder to adjust a prior year's tax liability and possibly may result in an audit of his own return. Any audit of a unitholder's return could result in adjustments not related to our returns as well as those related to our returns.

Partnerships generally are treated as separate entities for purposes of federal tax audits, judicial review of administrative adjustments by the IRS and tax settlement proceedings. The tax treatment of partnership items of income, gain, loss and deduction are determined in a partnership proceeding rather than in separate proceedings with the partners. The Internal Revenue Code requires that one partner be designated as the "Tax Matters Partner" for these purposes. The partnership agreement names Magellan GP, LLC as our Tax Matters Partner.

The Tax Matters Partner will make some elections on our behalf and on behalf of unitholders. In addition, the Tax Matters Partner can extend the statute of limitations for assessment of tax deficiencies against unitholders for items in our returns. The Tax Matters Partner may bind a unitholder with less than a 1% profits interest in us to a settlement with the IRS unless that unitholder elects, by filing a statement with the IRS, not to give that authority to the Tax Matters Partner. The Tax Matters Partner may seek judicial review, by which all the unitholders are bound, of a final partnership administrative adjustment and, if the Tax Matters Partner fails to seek judicial review, judicial review may be sought by any unitholder having at least a 1% interest in profits or by any group of unitholders having in the aggregate at least a 5% interest in profits. However, only one action for judicial review will go forward, and each unitholder with an interest in the outcome may participate.

A unitholder must file a statement with the IRS identifying the treatment of any item on his federal income tax return that is not consistent with the treatment of the item on our return. Intentional or negligent disregard of this consistency requirement may subject a unitholder to substantial penalties.

*Nominee Reporting.* Persons who hold an interest in us as a nominee for another person are required to furnish to us:

- (a) the name, address and taxpayer identification number of the beneficial owner and the nominee;
- (b) whether the beneficial owner is

- (1) a person that is not a United States person,
  - (2) a foreign government, an international organization or any wholly owned agency or instrumentality of either of the foregoing, or
  - (3) a tax-exempt entity;
- (c) the amount and description of units held, acquired or transferred for the beneficial owner; and
- (d) specific information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales.

Brokers and financial institutions are required to furnish additional information, including whether they are United States persons and specific information on units they acquire, hold or transfer for their own account. A penalty of \$50 per failure, up to a maximum of \$100,000 per calendar year, is imposed by the Internal Revenue Code for failure to report that information to us. The nominee is required to supply the beneficial owner of the units with the information furnished to us.

*Registration as a Tax Shelter.* The Internal Revenue Code requires that "tax shelters" be registered with the Secretary of the Treasury. It is arguable that we are not subject to the registration requirement on the basis that we will not constitute a tax shelter. However, we have registered as a tax shelter with the Secretary of Treasury in the absence of assurance that we will not be subject to tax shelter registration and in light of the substantial penalties which might be imposed if registration is required and not undertaken. Our tax shelter registration number is 01036000014.

Issuance of this registration number does not indicate that investment in us or the claimed tax benefits have been reviewed, examined or approved by the IRS.

A unitholder who sells or otherwise transfers a unit in a later transaction must furnish the registration number to the transferee. The penalty for failure of the transferor of a unit to furnish the registration number to the transferee is \$100 for each failure. The unitholders must disclose our tax shelter registration number on Form 8271 to be attached to the tax return on which any deduction, loss or other benefit we generate is claimed or on which any of our income is included. A unitholder who fails to disclose the tax shelter registration number on his return, without reasonable cause for that failure, will be subject to a \$250 penalty for each failure. Any penalties discussed are not deductible for federal income tax purposes.

*Accuracy-related Penalties.* An additional tax equal to 20% of the amount of any portion of an underpayment of tax that is attributable to one or more specified causes, including negligence or disregard of rules or regulations, substantial understatements of income tax and substantial valuation misstatements, is imposed by the Internal Revenue Code. No penalty will be imposed, however, for any portion of an underpayment if it is shown that there was a reasonable cause for that portion and that the taxpayer acted in good faith regarding that portion.

A substantial understatement of income tax in any taxable year exists if the amount of the understatement exceeds the greater of 10% of the tax required to be shown on the return for the taxable year or \$5,000 (\$10,000 for most corporations). The amount of any understatement subject to penalty generally is reduced if any portion is attributable to a position adopted on the return:

- (1) for which there is, or was, "substantial authority," or
- (2) as to which there is a reasonable basis and the pertinent facts of that position are disclosed on the return.



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More stringent rules apply to "tax shelters," a term that in this context does not appear to include us. If any item of income, gain, loss or deduction included in the distributive shares of unitholders might result in that kind of an "understatement" of income for which no "substantial authority" exists, we must disclose the pertinent facts on our return. In addition, we will make a reasonable effort to furnish sufficient information for unitholders to make adequate disclosure on their returns to avoid liability for this penalty.

A substantial valuation misstatement exists if the value of any property, or the adjusted basis of any property, claimed on a tax return is 200% or more of the amount determined to be the correct amount of the valuation or adjusted basis. No penalty is imposed unless the portion of the underpayment attributable to a substantial valuation misstatement exceeds \$5,000 (\$10,000 for most corporations). If the valuation claimed on a return is 400% or more than the correct valuation, the penalty imposed increases to 40%.

### **State, Local and Other Tax Considerations**

In addition to federal income taxes, you will be subject to other taxes, including state and local income taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which we do business or own property or in which you are a resident. We currently do business or own property in 26 states, most of which impose income taxes. We may also own property or do business in other states in the future. Although an analysis of those various taxes is not presented here, each prospective unitholder is urged to consider their potential impact on his investment in us. You may not be required to file a return and pay taxes in some states because your income from that state falls below the filing and payment requirement. You will be required, however, to file state income tax returns and to pay state income taxes in many of the states in which we do business or own property, and you may be subject to penalties for failure to comply with those requirements. In some states, tax losses may not produce a tax benefit in the year incurred and also may not be available to offset income in subsequent taxable years. Some of the states may require us, or we may elect, to withhold a percentage of income from amounts to be distributed to a unitholder who is not a resident of the state. Withholding, the amount of which may be greater or less than a particular unitholder's income tax liability to the state, generally does not relieve a nonresident unitholder from the obligation to file an income tax return. Amounts withheld may be treated as if distributed to unitholders for purposes of determining the amounts distributed by us. Please read " Tax Consequences of Unit Ownership Entity-Level Collections." Based on current law and our estimate of our future operations, the general partner anticipates that any amounts required to be withheld will not be material.

It is the responsibility of each unitholder to investigate the legal and tax consequences, under the laws of pertinent states and localities, of his investment in us. Accordingly, we strongly recommend that each prospective unitholder consult, and depend upon, his own tax counsel or other advisor with regard to those matters. Further, it is the responsibility of each unitholder to file all state and local, as well as United States federal tax returns, that may be required of him. Vinson & Elkins L.L.P. has not rendered an opinion on the state or local tax consequences of an investment in us.

### **SELLING UNITHOLDER**

This prospectus covers the offering for resale of up to 14,590,312 common units by the selling unitholder named below, which include 7,830,924 common units that are issuable upon the conversion of Class B common units and 5,679,694 common units that are issuable upon the conversion of subordinated units. The following table sets forth information relating to the selling unitholder's

beneficial ownership of our common units, Class B common units that are convertible into common units and subordinated units that are convertible into common units.

	<b>Number of Common Units Owned</b>	<b>Number of Class B Common Units Owned</b>	<b>Number of Subordinated Units Owned</b>
Magellan Midstream Holdings	1,079,694	7,830,924	5,679,694
TOTAL	1,079,694	7,830,924	5,679,694

The applicable prospectus supplement will set forth, with respect to the selling unitholder:

the name of the selling unitholder;

the nature of the position, office or other material relationship which the selling unitholder will have had within the prior three years with us or any of our affiliates;

the number of common units, Class B common units and subordinated units owned by the selling unitholder prior to the offering;

the number of common units, Class B common units and subordinated units to be offered for the selling unitholder's account; and

the amount and (if one percent or more) the percentage of common units, Class B common units and subordinated units to be owned by the selling unitholder after the completion of the offering.

All expenses incurred, excluding underwriting discounts and commission, with the registration of the common units, Class B common units and subordinated units owned by the selling unitholder will be borne by us.

#### **PLAN OF DISTRIBUTION**

Under this prospectus, the selling unitholder intends to offer our securities to the public:

through one or more broker-dealers;

through underwriters; or

directly to investors.

The selling unitholder will fix a price or prices, and may change the price of the securities offered from time to time:

at market prices prevailing at the time of any sale under this registration statement;

prices related to market prices; or

negotiated prices.

The selling unitholder will pay or allow distributors' or sellers' commissions that will not exceed those customary in the types of transactions involved. Broker-dealers may act as agents or may purchase securities as principals and thereafter resell the securities from time to time:

in or through one or more transactions (which may involve crosses and block transactions) or distributions;

on the New York Stock Exchange;

in the over-the-counter market; or

in private transactions.

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Broker-dealers or underwriters may receive compensation in the form of underwriting discounts or commissions and may receive commissions from purchasers of the securities for whom they may act as agents. If any broker-dealer purchases the securities as a principal, it may effect resales of the securities from time to time to or through other broker-dealers, and other broker-dealers may receive compensation in the form of concessions or commissions from the purchasers of securities for whom they may act as agents.

To the extent required, the names of the specific managing underwriter or underwriters, if any, as well as other important information, will be set forth in the applicable prospectus supplement. In that event, the discounts and commissions the selling unitholder will allow or pay to the underwriters, if any, and the discounts and commissions the underwriters may allow or pay to dealers or agents, if any, will be set forth in, or may be calculated from, the prospectus supplements. Any underwriters, brokers, dealers and agents who participate in any sale of the securities may also engage in transactions with, or perform services for, us or our affiliates in the ordinary course of their businesses.

In addition, the selling unitholder has advised us that it may sell common units in compliance with Rule 144, if available, or pursuant to other available exemptions from the registration requirements under the Securities Act, rather than pursuant to this prospectus.

To the extent required, this prospectus may be amended or supplemented from time to time to describe a specific plan of distribution.

In connection with offerings under this shelf registration and in compliance with applicable law, underwriters, brokers or dealers may engage in transactions that stabilize or maintain the market price of the securities at levels above those that might otherwise prevail in the open market. Specifically, underwriters, brokers or dealers may over-allot in connection with offerings, creating a short position in the securities for their own accounts. For the purpose of covering a syndicate short position or stabilizing the price of the securities, the underwriters, brokers or dealers may place bids for the securities or effect purchases of the securities in the open market. Finally, the underwriters may impose a penalty whereby selling concessions allowed to syndicate members or other brokers or dealers for distribution of the securities in offerings may be reclaimed by the syndicate if the syndicate repurchases previously distributed securities in transactions to cover short positions, in stabilization transactions or otherwise. These activities may stabilize, maintain or otherwise affect the market price of the securities, which may be higher than the price that might otherwise prevail in the open market, and, if commenced, may be discontinued at any time.

### WHERE YOU CAN FIND MORE INFORMATION

Magellan Midstream Partners files annual, quarterly and special reports and other information with the SEC, under the Securities Exchange Act of 1934. You may read and copy any document we file at the SEC's public reference room at 450 Fifth Street, N.W., Judiciary Plaza Room 1024, Washington, D.C. 20549.

Our common units are listed on the New York Stock Exchange and you may inspect and copy our SEC filings, the complete registration statement and other information at the offices of the New York Stock Exchange located at 20 Broad Street, 16th Floor, New York, New York 10005.

You may obtain information on the operation of the public reference room in Washington, D.C. by calling the SEC at 1-800-732-0330.

We file information electronically with the SEC. Our SEC filings also are available from the SEC's Internet site at <http://www.sec.gov>, which contains reports and other information regarding issuers that file electronically.

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The SEC allows us to incorporate by reference information we file with it into this prospectus. This procedure means that we can disclose important information to you by referring you to documents on file or to be filed with the SEC. The information we incorporate by reference is part of this prospectus and later information that we file with the SEC will automatically update and supersede this information. Therefore, before you decide to invest in a particular offering under this shelf registration, you should always check for SEC reports we may have filed after the date of this prospectus. We incorporate by reference the documents listed below and any future filings made by Magellan Midstream Partners with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until all offerings under this shelf registration are completed:

Annual Report on Form 10-K for the year ended December 31, 2002;

Quarterly Reports on Form 10-Q for the quarters ended March 31, 2003 and June 30, 2003;

Current Report on Form 8-K filed with the SEC on April 21, 2003 (excluding Item 9 information), June 17, 2003 (excluding Item 9 information), August 8, 2003 (excluding Item 9 information), August 12, 2003 and October 14, 2003; and

The description of the limited partnership units contained in the Registration Statement on Form 8-A, initially filed with the SEC on February 2, 2001, and any subsequent amendment thereto filed for the purposes of updating such description.

You may request a copy of these filings at no cost, by making written or telephone requests for copies to:

Magellan Midstream Partners, L.P.  
One Williams Center  
P. O. Box 22186  
Tulsa, Oklahoma 74121-2186  
Attention: Lonny Townsend  
(877) 934-6571

### LEGAL MATTERS

Vinson & Elkins L.L.P. will pass upon the validity of the securities offered in this registration statement.

### EXPERTS

The consolidated financial statements of Magellan Midstream Partners, L.P. (formerly Williams Energy Partners L.P.) as of December 31, 2002 and 2001 and for each of the years ended December 31, 2002, 2001 and 2000 and the consolidated balance sheets of Magellan GP LLC (formerly WEG GP LLC) as of December 31, 2002 and 2001 appearing in Magellan Midstream Partners, L.P.'s (formerly Williams Energy Partners L.P.) Annual Report (Form 10-K) for the year ended December 31, 2002 have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon included therein and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

**1,800,000 Common Units**

**Representing Limited Partner Interests**

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**PROSPECTUS SUPPLEMENT**

August , 2004

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*Joint Book-Running Managers*

**LEHMAN BROTHERS**

**CITIGROUP**

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**GOLDMAN, SACHS & CO.**

**UBS INVESTMENT BANK**

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