

# Exhibit 2

**KING PHARMACEUTICALS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - - (Continued)**

more novel formulations of ramipril, the active ingredient in the Company's Altace<sup>®</sup> product. Under a series of agreements, Arrow has granted King rights to certain current and future New Drug Applications regarding novel formulations of ramipril and intellectual property, including patent rights and technology licenses relating to these novel formulations. Arrow will have responsibility for the manufacture and supply of the new formulations of ramipril for King. However, under certain conditions King may manufacture and supply the formulations of ramipril.

Upon execution of the agreements, King made an initial payment to Arrow of \$35,000. During the fourth quarter of 2006 and the first quarter and second quarters of 2007, the Company made additional payments of \$25,000 in each of the three quarters to Arrow. Additionally, Arrow will earn fees for the manufacture and supply of the new formulations of ramipril.

In connection with the agreement with Arrow, the Company recognized the above payments and future payments totaling \$110,000 as in-process research and development expense during 2006. This amount was expensed as in-process research and development as the project had not received regulatory approval and had no alternative future use. The in-process research and development project is part of the branded pharmaceutical segment. This project includes a New Drug Application ("NDA") filed by Arrow for a tablet formulation of ramipril in January 2006 (the "Ramipril Application"). At the time of the acquisition, the success of the project was dependent on additional development activities and FDA approval. The estimated cost to complete the project at the execution of the agreement was approximately \$3,500. The FDA approved the Ramipril Application on February 27, 2007. Arrow granted the Company an exclusive option to acquire their entire right, title and interest to the Ramipril Application or any future filed Amended Ramipril Application for the amount of \$5,000. In April 2007, the Company exercised its option and paid \$5,000 to Arrow. As a result, the Company owns the entire right, title and interest in and to the Ramipril Application. The Company expects to launch the tablet formulation during the fourth quarter of 2007.

On February 12, 2006, the Company entered into an agreement with Cobalt Pharmaceuticals, Inc. ("Cobalt"), an affiliate of Arrow International Limited, whereby Cobalt has the non-exclusive right to distribute a generic formulation of the Company's currently marketed Altace<sup>®</sup> product in the U.S. market, which generic product would be supplied by King. On October 12, 2007, Cobalt sent the Company 30-day written notice of its intent to launch its generic ramipril product, which product would not be supplied by the Company. The Company responded on October 19, 2007, informing Cobalt that the Company intends to vigorously enforce its rights under the '722 and '856 patents to the full extent of the law. For additional information, please see Note 8.

**5. Intangible Assets and Goodwill**

The following table reflects the components of intangible assets as of:

	September 30, 2007		December 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Trademarks and product rights	\$ 911,721	\$ 385,612	\$ 1,056,991	\$ 337,046
Patents	538,183	232,259	272,833	202,873
Other intangibles	7,700	7,407	7,700	7,292
Total intangible assets	\$ 1,457,604	\$ 625,278	\$ 1,337,524	\$ 547,211

Amortization expense for the three months ended September 30, 2007 and 2006 was \$26,749 and \$26,836, respectively. Amortization expense for the nine months ended September 30, 2007 and 2006 was \$81,044 and \$79,380, respectively.

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\$49,800, plus interest from the date of the decision. The Company recorded approximately \$45,100 in the fourth quarter of 2006 and had previously recorded \$5,000 in 2004, related to this arbitration. In January

2007, the Company paid Elan approximately \$50,100, which included interest of approximately \$300.

Cobalt Pharmaceuticals, Inc. ("Cobalt"), a generic drug manufacturer located in Mississauga, Ontario, Canada, filed an Abbreviated New Drug Application ("ANDA") with the U.S. Food and Drug Administration (the "FDA") seeking permission to market a generic version of Altace<sup>®</sup>. The following U.S. patents are listed for Altace<sup>®</sup> in the FDA's *Approved Drug Products With Therapeutic Equivalence Evaluations* (the "Orange Book"): United States Patent No. 5,061,722 (the "'722 patent"), a composition of matter patent, and United States Patent No. 5,403,856 (the "'856 patent"), a method-of-use patent, with expiration dates of October 2008 and April 2012, respectively. Under the federal Hatch-Waxman Act of 1984, any generic manufacturer may file an ANDA with a certification (a "Paragraph IV certification") challenging the validity or infringement of a patent listed in the FDA's Orange Book four years after the pioneer company obtains approval of its New Drug Application ("NDA"). Cobalt filed a Paragraph IV certification alleging invalidity of the '722 patent, and Aventis Pharma Deutschland GmbH ("Aventis") and the Company filed suit on March 14, 2003 in the District Court for the District of Massachusetts to enforce the rights under that patent. Pursuant to the Hatch-Waxman Act, the filing of that suit provided the Company an automatic stay of FDA approval of Cobalt's ANDA for 30 months (unless the patents are held invalid, unenforceable, or not infringed) from no earlier than February 5, 2003. That 30-month stay expired in August 2005 and on October 24, 2005, the FDA granted final approval of Cobalt's ANDA. In March 2004, Cobalt stipulated to infringement of the '722 patent. Subsequent to filing its original complaint, the Company amended its complaint to add an allegation of infringement of the '856 patent. The '856 patent covers one of Altace<sup>®</sup>'s three indications for use. In response to the amended complaint, Cobalt informed the FDA that it no longer seeks approval to market its proposed product for the indication covered by the '856 patent. On this basis, the Court granted Cobalt summary judgment of non-infringement of the '856 patent. The Court's decision does not affect Cobalt's infringement of the '722 patent. The parties submitted a joint stipulation of dismissal on April 4, 2006, and the Court granted dismissal. Pursuant to the dismissal agreement, on October 12, 2007, Cobalt sent the Company 30-day written notice of its intent to launch its generic ramipril product which product would not be supplied by the Company. The Company responded on October 19, 2007, informing Cobalt that the Company intends to vigorously enforce its rights under the '722 and '856 patents to the full extent of the law.

The Company has received a civil investigative demand ("CID") for information from the U.S. Federal Trade Commission ("FTC"). The CID requires the Company to provide information related to the Company's collaboration with Arrow, the dismissal without prejudice of the Company's patent infringement litigation against Cobalt under the Hatch-Waxman Act of 1984 and other information. The Company is cooperating with the FTC in this investigation.

Lupin filed an ANDA with the FDA seeking permission to market a generic version of Altace<sup>®</sup> ("Lupin's ANDA"). In addition to its ANDA, Lupin filed a Paragraph IV certification challenging the validity and infringement of the '722 patent, and seeking to market its generic version of Altace<sup>®</sup> before expiration of the '722 patent. In July 2005, the Company filed civil actions for infringement of the '722 patent against Lupin in the U.S. District Courts for the District of Maryland and the Eastern District of Virginia. Pursuant to the Hatch-Waxman Act, the filing of the lawsuit against Lupin provided the Company with an automatic stay of FDA approval of Lupin's ANDA for up to 30 months (unless the patents are held invalid, unenforceable, or not infringed) from no earlier than June 8, 2005. On February 1, 2006, the Maryland and Virginia cases were consolidated into a single action in the Eastern District of Virginia. On June 5, 2006, the District Court granted King summary judgment and found Lupin to infringe the '722 patent. On June 14, 2006, during the trial, the District Court dismissed Lupin's unenforceability claims as a matter of law, finding the '722 patent enforceable. On July 18, 2006, the District Court upheld the validity of the '722 patent. Lupin filed a notice of appeal on July 19, 2006. All appellate briefing was completed as of March 19, 2007, and the Circuit Court heard oral arguments on July 12, 2007. On September 11, 2007, the Circuit Court reversed the decision of the