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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2014

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER: 001-14758

QUESTCOR PHARMACEUTICALS, INC.
(Exact name of Registrant as specified in its charter)

CALIFORNIA	**33-0476164**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer of Identification No.)**

1300 North Kellogg Drive, Suite D
Anaheim, CA 92807
(Address of Principal Executive Offices)

(714) 786-4200
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter prior that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

As of March 31, 2014 there were 60,977,015 shares of the Registrant’s common stock, no par value per share, outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QUESTCOR PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share information)
(unaudited)

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 261,102	$ 175,840
Short-term investments	75,021	69,166
Total cash, cash equivalents and short-term investments	336,123	245,006
Accounts receivable, net of allowances for doubtful accounts of $407 and $475 at March 31, 2014 and December 31, 2013, respectively	97,331	87,069
Inventories, net of allowances of $1,848 and $1,329 at March 31, 2014 and December 31, 2013, respectively	15,197	16,368
Restricted cash - current portion	25,000	25,000
Prepaid expenses and other current assets	8,228	7,124
Deferred tax assets	12,601	16,209
Total current assets	494,480	396,776
Property and equipment, net	31,250	31,733
Goodwill	19,790	20,464
In process R&D asset	188,988	191,451
Intangibles and other non current assets, net	28,350	30,131
Restricted cash	50,000	50,000
Deposits and other assets	128	389
Deferred tax assets	15,410	15,410
Total assets	$ 828,396	$ 736,354
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 22,219	$ 14,302
Accrued compensation	14,314	16,489
Sales-related reserves	33,790	35,370
Accrued royalties	35,941	35,163
Dividend payable	18,285	18,093
Current portion of contingent consideration	8,293	4,238
Current portion of in process R&D liability	25,000	25,000
Income taxes payable	22,175	3,693
Current portion of long-term debt	1,627	1,665
Other accrued liabilities	6,400	7,159
Total current liabilities	188,044	161,172
Long-term debt, less current portion	13,124	13,998
Contingent consideration	28,775	33,224
In process R&D liability	116,761	115,066
Non current deferred tax liability	10,221	10,569
Other non current liabilities	2,674	2,961
Total liabilities	359,599	336,990
Shareholders' equity:		
Preferred stock, no par value, 5,334,285 shares authorized; none outstanding	—	—
Common stock, no par value, 105,000,000 shares authorized, 60,977,015 and 60,137,758 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	45,042	30,386
Retained earnings	428,239	372,231
Accumulated other comprehensive (loss) income	(4,484)	(3,253)
Total shareholders' equity	468,797	399,364
Total liabilities and shareholders' equity	$ 828,396	$ 736,354

See accompanying notes.

QUESTCOR PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except net income per share data)
(unaudited)

	Three Months Ended March 31,	
	2014	**2013**
Revenue		
Pharmaceutical net sales	$ 209,768	$ 126,771
Contract manufacturing net sales	17,336	8,358
Total net sales	227,104	135,129
Cost of sales (exclusive of amortization of purchased technology)	21,410	16,189
Gross profit	205,694	118,940
Operating expenses:		
Selling and marketing	47,067	35,461
General and administrative	22,627	12,548
Research and development	19,929	10,793
Depreciation and amortization	1,027	1,070
Change in fair value of contingent consideration	2,024	505
Impairment of goodwill and intangibles	—	719
Total operating expenses	92,674	61,096
Income from operations	113,020	57,844
Interest and other income, net	51	163
Foreign currency transaction loss	(154)	(488)
Income before income taxes	112,917	57,519
Income tax expense	38,607	18,455
Net income	$ 74,310	$ 39,064
Change in unrealized gains or losses on available-for-sale securities, net of related tax effects	6	(5)
Change in foreign currency translation adjustments	$ (1,237)	$ (1,189)
Comprehensive income	$ 73,079	$ 37,870
Net income per share:		
Basic	$ 1.26	$ 0.68
Diluted	$ 1.20	$ 0.65
Shares used in computing net income per share:		
Basic	59,141	57,857
Diluted	61,822	60,271
Dividends declared per share of common stock	$ 0.30	$ 0.25

See accompanying notes.

QUESTCOR PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Three Months Ended March 31,	
	2014	**2013**
OPERATING ACTIVITIES		
Net income	$ 74,310	$ 39,064
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation expense	8,696	6,148
Deferred income taxes	3,604	411
Amortization of investments	261	182
Depreciation and amortization	4,823	2,137
Impairment of goodwill and intangibles	—	719
Loss on disposal of property and equipment	—	21
Imputed interest for contingent consideration and in-process R&D	2,024	290
Other compensation expense	514	215
Changes in operating assets and liabilities, net of business acquisition:		
Accounts receivable	(8,838)	8,718
Inventories	893	4,637
Prepaid expenses and other current assets	(1,114)	(198)
Accounts payable	6,272	(384)
Accrued compensation	(2,175)	(15,211)
Sales-related reserves	(1,580)	(11,546)
Accrued royalties	778	(21)
Income taxes payable	18,486	5,643
Other accrued liabilities	(837)	559
Other non-current liabilities	(43)	68
Net cash flows provided by operating activities	106,074	41,452
INVESTING ACTIVITIES		
Purchase of property and equipment	(2,252)	(562)
Purchase of short-term investments	(21,233)	(33,539)
Proceeds from maturities of short-term investments	15,124	30,038
Acquisition of BioVectra, net of cash acquired	—	(46,692)
Deposits and other assets	437	—
Net cash flows used in investing activities	(7,924)	(50,755)
FINANCING ACTIVITIES		
Repayment of funded long-term debt	(291)	(304)
Repayment of other long-term debt	(116)	(119)
Income tax benefit realized from share-based compensation plans	10,025	1,991
Issuance of common stock, net	(4,065)	2,615
Dividends paid	(18,110)	—
Net cash flows (used in) / provided by financing activities	(12,557)	4,183
Effect of cash on changes in exchange rates	(331)	(84)
Increase (decrease) in cash and cash equivalents	85,262	(5,204)
Cash and cash equivalents at beginning of period	175,840	80,608
Cash and cash equivalents at end of period	$ 261,102	$ 75,404
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 152	$ 182

Cash paid for income taxes	$ 6,205	$ 9,707
Supplemental Disclosures of Investing and Financing Activities:		
Dividend payable	$ 18,285	$ 14,751
In conjunction with the acquisition of BioVectra at January 18, 2013:		
Incremental fair value of assets acquired, net		$ 80,698
Less: fair value of contingent consideration		(30,383)
		50,315
Loss on foreign exchange rate		488
Total cash paid for acquisition of BioVectra		$ 50,803

See accompanying notes.

QUESTCOR PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except per share data)	Common Stock		Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Total Shareholders' Equity
	Shares	Amount			
Balances at December 31, 2013	60,137,758	$ 30,386	$ 372,231	$ (3,253)	$ 399,364
Stock compensation for equity incentives and restricted common stock granted to employees	427,705	8,696			8,696
Issuance of common stock pursuant to employee stock purchase plan	23,314	1,164			1,164
Dividends declared on shares of common stock			(18,302)		(18,302)
Issuance of common stock upon exercise of stock options	545,522	7,026			7,026
Repurchase of common stock	—	—	—	—	—
Cancellation of shares related to tax liability	(157,284)	(12,255)			(12,255)
Income tax benefit realized from share-based compensation plans		10,025			10,025
Comprehensive income (loss):					
Net unrealized gain on investments				6	6
Foreign currency translation adjustments				(1,237)	(1,237)
Net income			74,310		74,310
Balances at March 31, 2014	60,977,015	$ 45,042	$ 428,239	$ (4,484)	$ 468,797

See accompanying notes.

QUESTCOR PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. The Company

Questcor is a biopharmaceutical company focused on the treatment of patients with serious, difficult-to-treat autoimmune and inflammatory disorders. We also supply specialty contract manufacturing services to the global pharmaceutical and biotechnology industry through our wholly-owned subsidiary, BioVectra Inc. Our primary product is H.P. Acthar® Gel (repository corticotropin injection), or Acthar, an injectable drug that is approved by the U.S. Food and Drug Administration, or FDA, for the treatment of 19 indications. Of these 19 FDA approved indications, we currently generated substantially all of our net sales from the following indications:

- Nephrotic Syndrome (NS): Acthar is indicated “to induce a diuresis or a remission of proteinuria in the nephrotic syndrome without uremia of the idiopathic type or that due to lupus erythematosus.” According to the National Kidney Foundation, nephrotic syndrome can result from several idiopathic type kidney disorders, including idiopathic membranous nephropathy, focal segmental glomerulosclerosis, IgA nephropathy and minimal change disease. Nephrotic syndrome can also occur due to lupus erythematosus. In this Form 10-Q, the terms “nephrotic syndrome” and “NS” refer only to the proteinuria in nephrotic syndrome conditions that are covered by the Acthar label of approved indications.

- Rheumatology Related Conditions: Acthar is approved for the following rheumatology related conditions: (i) Collagen Diseases: Acthar is indicated "during an exacerbation or as maintenance therapy in selected cases of systemic lupus erythematosus, systemic dermatomyositis (polymyositis)" and (ii) Rheumatic Disorders: Acthar is indicated as "adjunctive therapy for short-term administration (to tide the patient over an acute episode or exacerbation) in: Psoriatic arthritis, Rheumatoid arthritis, including juvenile rheumatoid arthritis (selected cases may require low-dose maintenance therapy), and Ankylosing spondylitis."

- Multiple Sclerosis (MS): Acthar is indicated “for the treatment of acute exacerbations of multiple sclerosis in adults. Controlled clinical trials have shown H.P. Acthar Gel to be effective in speeding the resolution of acute exacerbations of multiple sclerosis. However, there is no evidence that it affects the ultimate outcome or natural history of the disease.”

- Infantile Spasms (IS): Acthar is indicated “as monotherapy for the treatment of infantile spasms in infants and children under 2 years of age.”

We continue to explore additional markets for other on-label indications. For example, in late 2013 we initiated a pilot commercialization effort for Acthar for the treatment of respiratory manifestations of symptomatic sarcoidosis. In addition, we are exploring the possibility of pursuing FDA approval for indications not currently on the Acthar label that are related to the treatment of other serious, difficult-to-treat autoimmune and inflammatory disorders having high unmet medical need.

In order to improve outcomes for patients with difficult-to-treat autoimmune and inflammatory disorders, we are expanding our research to better understand the mechanism(s) of action of Acthar as well as the pharmacology of Acthar across and within each indication. We are also conducting studies to expand our understanding of why Acthar acts differently than steroids and potentially other melanocortin peptides.

Merger with Mallinckrodt plc

On April 5, 2014, we entered into a definitive merger agreement (the “Merger Agreement”) with Mallinckrodt plc, an Irish public limited company (“Mallinckrodt”), and Quincy Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Mallinckrodt (“Merger Sub”), pursuant to which, subject to the terms and conditions set forth in the Merger Agreement, Merger Sub will be merged with and into Questcor (the “Merger”), with Questcor continuing as the surviving corporation. As a result of the Merger, Questcor will become an indirect wholly owned subsidiary of Mallinckrodt.

The Merger Agreement provides that, upon completion of the Merger, each share of our common stock issued and outstanding immediately prior to the Merger (other than dissenting shares, shares of restricted common stock granted to individuals other than non-employee directors, and common stock owned by Questcor, Mallinckrodt, Merger Sub or any of their respective subsidiaries) will be converted into the right to receive a combination of (1) $30.00 per share of common stock in cash, without interest (the “Cash Consideration”), plus (2) 0.897 validly issued, fully paid and nonassessable Mallinckrodt ordinary shares (the “Stock Consideration,” together with the Cash Consideration, the “Merger Consideration”). The aggregate Merger Consideration consists of approximately 58.9 million Mallinckrodt ordinary shares and $1.875 billion in cash.

The Merger Agreement contains customary representations, warranties and covenants by Questcor, Mallinckrodt, and Merger Sub, including a covenant restricting our ability to pay any further dividends on our common stock during the period between signing of the Merger Agreement and consummation of the Merger, except for a $0.30 per share dividend which has been declared by our Board of Directors and will be paid in July 2014 to shareholders of record as of July 1, 2104.

The Merger Agreement provides that Questcor must pay a termination fee to Mallinckrodt equal to (i) $194,470,000 if the Merger Agreement is terminated under certain circumstances specified in the Merger Agreement, a competing proposal for Questcor was publicly disclosed and not withdrawn prior to the date of the Questcor shareholder meeting, and Questcor enters into a definitive agreement for a competing proposal that is subsequently consummated, or consummates a competing transaction, in each case, within 12 months following such termination; or (ii) $55,560,000 if the Merger Agreement is terminated by Mallinckrodt or Questcor because the Questcor shareholder approval is not obtained (which would be credited against any Questcor termination fee that subsequently becomes payable as described in clause (i)). In the reciprocal circumstances listed in clause (i) of the prior sentence, Mallinckrodt must pay a termination fee to Questcor equal to $131,450,000, and in the reciprocal circumstances listed in clause (ii) of the prior sentence, Mallinckrodt must pay a termination fee to Questcor equal to $37,560,000.

The proposed Merger has been unanimously approved by the boards of directors of Questcor and Mallinckrodt, and is supported by the management teams of both companies. We currently expect the Merger to close in the third calendar quarter of 2014, subject to the satisfaction of customary closing conditions, including the approval of the shareholders of both companies and expiration of the waiting period (or extension thereof) under the Hart-Scott-Rodino Antitrust Improvement Act of 1976.

The proposed Merger has had no effect on the condensed consolidated financial statements except for the related footnote disclosures herein.

Acquisition of Synacthen

On June 11, 2013, the Effective Date, we acquired from Novartis AG and Novartis Pharma AG, collectively Novartis, a license to develop, market, manufacture, distribute, sell and commercialize Synacthen and Synacthen Depot for all uses in humans in the United States. Subject to certain conditions and limitations in the License Agreement, the license is exclusive, perpetual and irrevocable. Synacthen is a synthetic melanocortin agonist approved in various countries outside of the United States for certain autoimmune and inflammatory conditions. We are in the process of implementing a research and development program for Synacthen and intend to seek FDA approval. Synacthen has never been developed or approved for patients in the United States.

Subject to certain closing conditions, we also will acquire from Novartis a license and certain assets to develop, market, manufacture, distribute, sell and commercialize Synacthen and Synacthen Depot in certain countries outside the U.S. for all uses in humans. Subject to certain conditions and limitations, these rights and assets are exclusive, perpetual and irrevocable.

Under the terms of the transaction agreements, we paid Novartis an upfront consideration of $60.0 million. We will also be making annual cash payments of $25 million on each of the first, second and third anniversaries of the Effective Date, a potential additional annual cash payment on each anniversary subsequent to the third anniversary until we obtain the first approval of the FDA related to the products, or the FDA Approval, and a milestone payment upon our receipt of the FDA Approval. If we successfully obtain the FDA Approval, we will pay an annual royalty to Novartis based on a percentage of the net sales of the product in the U.S. market until the maximum payment is met. The first three annual payments aggregating to $75.0 million are secured by a letter of credit and classified as restricted cash on the Condensed Consolidated Balance Sheets. In no event will the total payments related to this transaction exceed $300 million.

Acquisition of BioVectra

On January 18, 2013, we completed our acquisition of BioVectra Inc. As a result of this acquisition, we have greater control over the manufacturing and quality of the active pharmaceutical ingredient, or API, in Acthar.

We acquired 100% of the issued and outstanding shares of BioVectra for $50.3 million utilizing cash on hand. The former shareholders of BioVectra could receive additional cash consideration of up to C$50.0 million based on BioVectra's financial results over the next 3 years. Contingent consideration in conjunction with the acquisition of BioVectra of $30.4 million was recorded on our Consolidated Balance Sheet at the acquisition date. Any differences between our estimate and actual payments or subsequent adjustments will be recorded in operating expenses. Consequently, in 2013, BioVectra met its performance milestones for the year and earned C$5.0 million in consideration. Additionally, financial projections for 2014 and 2015 improved resulting in an increase in the value of the contingent consideration, which was recorded during the fourth quarter of 2013 as a reduction to operating income.

BioVectra is a supplier of contract manufacturing services to the global pharmaceutical and biotechnology industry. BioVectra manufactures API's, chemical intermediates, and bioprocessing reagents, and is our manufacturing partner for the API in our H.P. Acthar® Gel (repository corticotropin injection). BioVectra is proficient in synthetic organic chemistry, natural extraction of bioactive compounds, PEGylation and conjugation chemistry, and fermentation of chemical and biologic molecules.

The acquisition was recorded by allocating the estimated value of consideration paid by us for the BioVectra acquisition to the assets acquired including intangible assets, and liabilities assumed, based on their estimated fair values at the acquisition date in accordance with the acquisition method of accounting. After assigning the fair value of all assets and liabilities identified, including all identified intangible, there was excess purchase consideration transferred over the fair value of net assets acquired, resulting in the recognition of goodwill. We have finalized the amounts shown below.

The following table reflects the fair value of consideration transferred at the acquisition date (in thousands):

Allocation of Purchase Price:		
Current assets excluding inventory	$	11,691
Inventory		11,774
Property and equipment		35,221
Other non-current assets		1,708
Current deferred tax asset		141
Intangibles		35,581
Goodwill		21,914
Current liabilities		(6,451)
Non-current liabilities, excluding long-term debt		(1,994)
Non-current deferred tax liability		(12,012)
Long-term debt		(16,875)
Total net assets acquired	$	80,698
Cash consideration paid to BioVectra shareholders	$	50,315
Estimated fair value of contingent consideration		30,383
Total purchase consideration	$	80,698

2. Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements include the accounts of Questcor and our wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. In the opinion of our management, all adjustments (consisting of normal recurring adjustments) considered necessary for the fair presentation of interim financial information have been included.

The financial statements of our subsidiaries with functional currencies other than the U.S. dollar are translated into U.S. dollars using period-end exchange rates for assets and liabilities, historical exchange rates for shareholders' equity and weighted average exchange rates for operating results. Translation gains and losses are included in accumulated other comprehensive income in shareholders' equity. Foreign currency transaction gains and losses are included in the results of operations in our condensed consolidated statements of income and comprehensive income.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principals, or GAAP, requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could materially differ from those estimates. Our significant estimates include our estimates for sales-related reserves, valuation and impairment of intangibles and goodwill, deferred tax assets and tax liabilities, share-based compensation and estimating the fair value of our contingent consideration in conjunction with the acquisition of both BioVectra and Synacthen, among others.

Reclassifications

Certain comparative prior year amounts in the condensed consolidated financial statements and accompanying notes have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported net income.

Revenue Recognition

We recognize revenue in accordance with Accounting Standards Codification 605, “Revenue Recognition-Products,” or ASC 605. Pursuant to ASC 605, we recognize revenue when we have persuasive evidence that an arrangement, agreement or contract exists, when each of the following three criteria are satisfied: (i) title for our product and risk of loss have passed to our customer, (ii) the price we charge for our product is fixed or is readily determinable, and (iii) we are reasonably assured of collecting the amounts owed under the resulting receivable. We do not require collateral from our customers.

In the U.S., our exclusive customer for Acthar is a specialty distributor. For our sales to this specialty distributor, a sale of Acthar occurs when the specialty distributor accepts a shipment of Acthar based on its order of Acthar from our exclusive agent for commercial shipment of Acthar to the specialty distributor. We sell Acthar at a discount from our list price to the specialty distributor, which then sells Acthar primarily to approximately 12 specialty pharmacy companies and many hospitals.

We provide free vials of Acthar, to support a patient assistance program administered by a third party administrator. We do not recognize any revenue or net sales from this program.

Separately, we make charitable contributions, in dollars, to independent third-party charitable organizations which administer co-pay assistance programs.

International sales of our products are immaterial.

Net Sales

We record net sales after establishing reserves for the following:

- Medicaid rebates;
- TRICARE retail program rebates;
- Medicare Part D Coverage Gap Discount Program rebates;

- Chargebacks due to other government programs;
- Questcor-sponsored co-pay assistance programs;
- Exchanges, which have historically been immaterial; and
- Other deductions, such as payment discounts.

We currently provide our products to Medicaid participants under an agreement with the Centers for Medicare and Medicaid Services, or CMS. Under this agreement, states are eligible to receive rebates from us for Medicaid patients in accordance with CMS regulations. States have historically provided us with rebate invoices for their Medicaid Fee for Service reimbursements between 60 and 90 days after the end of the calendar quarter in which our products were provided. Certain states are taking longer to submit complete rebate invoices for the Medicaid Managed Care utilization that became rebate eligible on March 23, 2010, as a result of the enactment of the Patient Protection and Affordable Care Act.

Significant judgment is inherent in the selection of assumptions and the interpretation of historical experience as well as the identification of external and internal factors affecting the determination of our reserves for Medicaid rebates and other government program rebates and chargebacks. We believe that the assumptions used to determine these sales reserves are reasonable considering known facts and circumstances. However, our Medicaid rebates and other government program rebates and chargebacks could materially differ from our reserve amounts because of unanticipated changes in prescription trends or patterns in the states' submissions of Medicaid claims, adjustments to the amount of product in the distribution channel, or if our estimates of the number of Medicaid patients with IS, MS, NS and rheumatology related-conditions are incorrect. We have greater visibility on the future submission of Medicaid claims and the amount of product in the distribution channel for Acthar distributed to certain specialty pharmacies than we have with respect to Acthar distributed through other specialty pharmacies. If actual Medicaid rebates, or other government program rebates and chargebacks are materially different from our estimates, we would account for such differences as a change in estimate in the period in which they become known. If actual future payments for such reserves exceed the estimates we made at the time of sale, our consolidated financial position, results of operations and cash flows may be negatively impacted.

Total Sales-related Reserves

At March 31, 2014 and December 31, 2013, sales-related reserves included in the accompanying condensed consolidated balance sheets were as follows (in thousands):

	March 31, 2014	December 31, 2013
Medicaid rebates	$ 29,981	$ 30,981
Other rebates, chargebacks and discounts	3,809	4,389
Total	$ 33,790	$ 35,370

The following table summarizes the activity in the account for sales-related reserves for Medicaid rebates (in thousands):

	2014	2013
Balance at January 1	$ 30,981	$ 33,921
Actual Medicaid payments for sales made in prior year	(7,586)	(17,712)
Actual Medicaid payments for sales made in current year	—	—
Current Medicaid provision for sales made in prior year	(4,588)	(3)
Current Medicaid provision for sales made in current year	11,174	6,031
Balance at March 31	$ 29,981	$ 22,237

Product Exchanges and Returns

Acthar has a shelf life of 18 months from the date of manufacture. We authorize Acthar exchanges for expiring and expired product in accordance with our stated return policy, which allows CuraScript SD to return product within one month of its expiration date and for a period up to three months after such product has reached its expiration date. Product exchanges have been insignificant since we began utilizing the services of CuraScript SD to distribute Acthar.

For our contract manufactured finished goods sold through our BioVectra subsidiary, we warrant that our products conform to the applicable product specifications. Each product is shipped with a Certificate of Analysis stating the conditions and results of product performance tests. Our customers must determine the suitability of our product. We do not accept liability for any incidental, direct or indirect consequential or contingent damages arising out of the use, result of use, or the inability to use our products. Should any of our products fail to meet its described specifications for reasons other than misuse or mishandling, at our option, we will either replace the product free of charge or refund the purchase price. We reserve the right to deny a return when the date of the invoice is greater than 30 days from the return request date, or for any other reason as covered by our warranty.

Concentration of Credit Risk

Financial instruments that subject us to a significant concentration of credit risk principally consist of cash and cash equivalents, short-term investments and accounts receivable. We invest our cash in high credit quality government and corporate debt instruments and believe the financial risks associated with these instruments are minimal.

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. We have never experienced any losses related to these balances. Beginning January 1, 2013, all of our non-interest bearing cash balances were insured up to $250,000 per depositor at each financial institution. We did not have any non-interest-bearing amounts on deposit in excess of federally insured limits at March 31, 2014.

We extend credit to our customer, CuraScript SD, which accounts for approximately 93% of our gross product sales and 88% of our accounts receivable. We have not experienced material credit losses on our customer accounts.

Inventories

We state inventories, net of allowances, at the lower of cost or market value. For our Acthar product, cost is determined by the first-in, first-out method. For our production materials and supplies, work-in-process and finished goods at our contract manufacturer, cost is determined on an average cost basis.

We review inventory periodically for slow-moving or obsolete status. We adjust our inventory if we do not expect to recover the cost of inventory. We would record a reserve to adjust inventory to its net realizable value when any of the following occur: (i) a product is close to expiration and we do not expect it to be sold, (ii) a product has reached its expiration date or (iii) we do not expect a product to be saleable. In determining the reserves for these products, we consider factors such as the amount of inventory on hand and its remaining shelf life, and current and expected market conditions, including management forecasts and levels of competition. We have evaluated the current level of inventory considering historical trends and other factors, and based on our evaluation, have recorded adjustments to reflect inventory at its net realizable value. These adjustments are estimates, which could vary significantly from actual results if future economic conditions, customer demand, competition or other relevant factors differ from expectations. These estimates require us to assess the future demand for our products in order to categorize the status of such inventory items as slow-moving, obsolete or in excess-of-need. These future estimates are subject to the ongoing accuracy of our forecasts of market conditions, industry trends, competition and other factors. Differences between our estimated reserves and actual inventory adjustments have been immaterial, and we account for such adjustments in the current period as a change in estimate.

The components of inventory are as follows (in thousands):

	March 31, 2014	December 31, 2013
Raw material	$ 8,878	$ 9,835
Work-in-process	4,559	2,194
Intermediates	1,074	1,572
Finished goods	2,534	4,096
	17,045	17,697
Less: Reserve for obsolescence	(1,848)	(1,329)
	$ 15,197	$ 16,368

Included in inventories at March 31, 2014 is $7.8 million held at BioVectra, in Canada.

Property, Plant and Equipment

Equipment, building, land and leasehold improvements and related accumulated depreciation and amortization are as follows (in thousands):

	March 31, 2014	December 31, 2013
Equipment (including manufacturing, laboratory and office)	$ 27,367	$ 26,237
Building	11,489	12,015
Land and land improvements	393	406
Leasehold improvements	1,514	1,446
	40,763	40,104
Less accumulated depreciation and amortization	(9,513)	(8,371)
	$ 31,250	$ 31,733

Total depreciation and amortization expense amounted to $1.6 million and $1.3 million for the three months ended March 31, 2014 and 2013, respectively. The increase in depreciation and amortization expense was due to an increase in the value of assets held and acquired. We depreciate our property and equipment and amortize our leasehold improvements using the straight-line method of depreciation. Included in property, plant and equipment at March 31, 2014 is $29.0 million held at BioVectra, in Canada.

Supply Concentration Risks

Acthar is derived from the extraction and purification of porcine pituitary glands through complicated processes, and is difficult to manufacture. Acthar bulk concentrate, the API used in Acthar, is processed at our BioVectra subsidiary, in several stages to produce a highly purified raw material for formulation. We have a supply agreement with Cangene bioPharma, Inc., or Cangene, to manufacture commercial quantities of Acthar finished product. Currently, Cangene is our sole source supplier of Acthar finished product. Additionally, we use a sole source provider for potency testing. The processes used to manufacture and test Acthar are complex and subject to FDA inspection and approval. Acthar finished product has a shelf life of 18 months from the date of manufacture.

Cash Equivalents and Short-Term Investments

We consider highly liquid investments with maturities from the date of purchase of three months or less to be cash equivalents. We classify available-for-sale debt instruments with maturities at the date of purchase of greater than three months as short-term investments.

We carry available-for-sale securities at fair value, with the unrealized gains and losses, if any, reported in the Condensed Consolidated Statements of Income and Comprehensive Income. If we deem the decline in value to be other-than-temporary and we intend to sell such securities before their full cost can be recovered, we write down such securities to fair value and we charge the loss to net realized losses on investments. We use significant judgment in the determination of when an other-than-temporary decline in value has occurred. We evaluate our investment securities for other-than-temporary declines based on quantitative and qualitative factors. As of March 31, 2014, none of our investments had an other-than-temporary decline in

valuation, and no other-than-temporary losses were recognized during the three months ended March 31, 2014 and 2013, respectively. We base the cost of securities sold on the specific identification method. We include realized gains and losses, if any, in the accompanying condensed consolidated statements of income and comprehensive income, in Interest and other income, net.

A summary of cash and cash equivalents and short-term investments, classified as available-for-sale, and carried at fair value is as follows (in thousands):

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Estimated Fair Value
March 31, 2014				
Cash and cash equivalents	$ 7,384	$ —	$ —	$ 7,384
Short-term investments:				
Corporate bonds	48,950	12	(7)	48,955
Government-sponsored enterprises	13,775	8	(15)	13,768
Municipal bonds	12,290	10	(2)	12,298
	$ 75,015	$ 30	$ (24)	$ 75,021
December 31, 2013				
Cash and cash equivalents	$ 13,351	$ —	$ —	$ 13,351
Short-term investments:				
Corporate bonds	45,190	11	(14)	45,187
Government-sponsored enterprises	14,539	3	(4)	14,538
Municipal bonds	9,438	4	(1)	9,441
	$ 69,167	$ 18	$ (19)	$ 69,166

The amortized cost and fair value of short-term investment securities at March 31, 2014, by contractual maturity, are as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 36,786	$ 36,790
Due after one through two years	38,229	38,231
Total short-term investments	$ 75,015	$ 75,021

As of March 31, 2014, the average contractual maturity of our short-term investments was approximately 13 months.

As of March 31, 2014, we had the following available-for-sale securities that were in an unrealized loss position but were not deemed to be other-than-temporarily impaired (in thousands):

	Less Than 12 Months		12 Months or Greater	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	$ (3)	$ 9,952	$ (4)	$ 6,618
Government-sponsored enterprises	—	—	(2)	1,130
Municipal bonds	—	—	(15)	5,234
Total	$ (3)	$ 9,952	$ (21)	$ 12,982

The gross unrealized losses reported above for March 31, 2014 were caused by general fluctuations in market interest rates from the respective purchase date of these securities through March 31, 2014. No significant facts or circumstances have occurred to indicate that these unrealized losses are related to any deterioration in the creditworthiness of the issuers of the marketable securities we own. Based on our review of these securities, including our assessment of the duration and severity of the related unrealized losses, we have not recorded any other-than-temporary impairments on these investments. For the three months ended March 31, 2014, we did not realize any gains or losses.

Fair Value of Financial Instruments

Our financial instruments include cash and cash equivalents, short-term investments, accounts receivable, accounts payable, dividends payable, accrued liabilities and derivatives (primarily associated with the contingent consideration in conjunction with the acquisition of Synacthen). We believe that the fair value of these financial instruments approximate the reported carrying amounts.

Fair Value Measurements

We account for fair value measurements under Accounting Standards Codification 820 "Fair Value Measurements and Disclosures," or ASC 820, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

We have segregated all assets and liabilities measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below. As of March 31, 2014 and December 31, 2013, assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

		Basis of Fair Value Measurements			
Balance Sheet Classification		**Balance at March 31, 2014**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	Cash and cash equivalents	$ 7,384	$ 5,384	$ 2,000	$ —
Short-term investments	Corporate bonds	48,955	—	48,955	—
Short-term investments	Government-sponsored enterprises	13,768	—	13,768	—
Short-term investments	Municipal bonds	12,298	—	12,298	—
	Total assets	$ 82,405	$ 5,384	$ 77,021	$ —
Current liabilities	Current portion of contingent consideration in conjunction with acquisition of BioVectra	8,293	—	—	8,293
Current liabilities	Current portion of contingent consideration in conjunction with acquisition of Synacthen	25,000	—	—	25,000
Non-current liabilities	Contingent consideration in conjunction with acquisition of BioVectra	28,775	—	—	28,775
Non-current liabilities	Contingent consideration in conjunction with acquisition of Synacthen	116,761	—	—	116,761
	Total liabilities	$ 178,829	$ —	$ —	$ 178,829

Balance Sheet Classification		Balance at December 31, 2013	Basis of Fair Value Measurements: Level 1	Level 2	Level 3
Cash and cash equivalents	Cash and cash equivalents	$ 13,351	$ 5,260	$ 8,091	$ —
Short-term investments	Corporate bonds	45,187	—	45,187	—
Short-term investments	Government-sponsored enterprises	14,538	—	14,538	—
Short-term investments	Municipal bonds	9,441	—	9,441	—
	Total assets	$ 82,517	$ 5,260	$ 77,257	$ —
Current liabilities	Current portion of contingent consideration in conjunction with acquisition of BioVectra	4,238	—	—	4,238
Current liabilities	Current portion of contingent consideration in conjunction with acquisition of Synacthen	25,000	—	—	25,000
Non-current liabilities	Contingent consideration in conjunction with acquisition of BioVectra	33,224	—	—	33,224
Non-current liabilities	Contingent consideration in conjunction with acquisition of Synacthen	115,066	—	—	115,066
	Total liabilities	$ 177,528	$ —	$ —	$ 177,528

The fair value of contingent consideration in conjunction with the acquisition of BioVectra and Synacthen was determined to be Level 3 under the fair value hierarchy. The following table presents the fair value, valuation technique and related unobservable input for the Level 3 measurements:

	Fair Value	Valuation Technique	Unobservable Input	Rate
Contingent consideration in conjunction with the acquisition of Bio Vectra estimate	$ 37,068	Probability weighted discounted future cash flows	Discount rate	5%
Contingent consideration in conjunction with the acquisition of Synacthen estimate	$ 141,761	Probability weighted discounted future cash flows	Discount rate	5%

Investment securities are exposed to various risk factors, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that changes in these risk factors in the near term could have an adverse material impact on our results of operations or shareholders' equity.

The following table represents a roll forward of the fair value of Level 3 instruments, comprised solely of the contingent consideration, including the current portion of the contingent consideration:

	March 31, 2014
Balance at beginning of period	$ 177,528
Amounts acquired or issued	—
Change due to compensation expense	514
Change due to time value of money	2,024
Change due to foreign currency translation adjustment	(1,237)
Changes in fair value	—
Balance at end of period	$ 178,829

Certain assets and liabilities are measured at fair value on a nonrecurring basis. In other words, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances.

Long-term Debt

Funded long-term debt

Our subsidiary, BioVectra, has a supply agreement with a customer to supply a pharmaceutical product for a period of 10 years. Per the supply agreement, BioVectra financed and constructed a facility for the manufacturing of the pharmaceutical product to be supplied under the agreement. BioVectra entered into a term loan agreement with Prince Edward Island Century 2000 Fund Inc. to finance C$14.8 million of the construction costs of the facility. The term loan has an interest rate of 4%, is due in full by February 2022 and is secured by certain of our BioVectra assets. Under the supply agreement, the customer agreed to reimburse BioVectra for the quarterly financing payments of C$450,743 during the term of the loan.

	March 31, 2014
4% Term Loan, due February 2022, payable in quarterly installments of C$450,743 including principal and interest	$ 11,401
Less: Current Portion	1,192
Funded long-term debt, less current portion	$ 10,209

Long-term debt

Our subsidiary, BioVectra, has a 2.85% term loan. The loan is payable monthly and is due April 2016. The loan is secured with BioVectra accounts receivable and inventory.

	March 31, 2014
2.85% Term Loan, due April 2016, payable in monthly installments of C$48,170 including principal and interest	$ 3,350
Less: Current Portion	435
Funded long-term debt, less current portion	$ 2,915

Share-based Compensation

We recognize compensation expense for all share-based awards made to employees and directors. The fair value of share-based awards is estimated at grant date using an option pricing model and the portion that is ultimately expected to vest is recognized as compensation cost over either (1) the requisite service period or (2) the performance period.

Since share-based compensation is recognized only for those awards that are ultimately expected to vest, we have applied an estimated forfeiture rate to unvested awards for the purpose of calculating compensation cost. These estimates will be revised, if necessary, in future periods if actual forfeitures differ from estimates. Changes in forfeiture estimates impact compensation cost in the period in which the change in estimate occurs.

We use the Black-Scholes option-pricing model to estimate the fair value of share-based awards. The determination of fair value using the Black-Scholes option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option behaviors. We estimate the expected term based on the contractual term of the awards and employees' exercise and expected post-vesting termination behavior.

We use the intrinsic method to account for restricted stock awards. The restricted stock awards are valued based on the closing stock price on the date of grant and amortized ratably over the life of the award.

Additionally, we are required to disclose in our condensed consolidated statements of cash flows the income tax effects resulting from share-based payment arrangements. We adopted the simplified method to calculate the beginning balance of the additional paid-in capital, or APIC, pool of excess tax benefits, and to determine the subsequent effect on the APIC pool and consolidated statements of cash flows of the tax effects of employee share-based compensation awards.

At March 31, 2014, there was $17.9 million of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a remaining weighted average vesting period of approximately 2.0 years; and $55.6 million of total unrecognized compensation cost related to unvested restricted stock awards and restricted stock units.

Share-based compensation cost is summarized below (in thousands):

	Three Months Ended March 31,	
	2014	2013
Selling and marketing	$ 3,117	$ 2,454
General and administrative	3,835	2,538
Research and development	1,744	1,156
Total	$ 8,696	$ 6,148

Net Income Per Share

Basic net income per share applicable to common shareholders is computed by dividing the net income for the period by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income for the period by the weighted average number of common and common equivalents shares, such as stock options and restricted stock outstanding during the period. Diluted earnings for our common shareholders per common stock considers the impact of potentially dilutive securities and excludes the impact of potential common shares related to our stock options and restricted stock in periods in which the option exercise or conversion price is greater than the average market price of our common stock during the period.

The following table presents the amounts used in computing basic and diluted net income per share applicable to common shareholders for the three months ended March 31, 2014 and 2013 and the effect of dilutive potential common shares on the number of shares used in computing dilutive net income per share applicable to common shareholders. Diluted potential common shares resulting from the assumed exercise of outstanding stock options and restricted stock are determined based on the treasury stock method (in thousands, except per share amounts).

	Three Months Ended March 31,	
	2014	2013
Net income applicable to common shareholders	$ 74,310	$ 39,064
Shares used in computing net income per share applicable to common shareholders:		
Basic	59,141	57,857
Effect of dilutive potential common shares:		
Stock options	2,165	2,288
Restricted stock	516	126
Diluted	61,822	60,271
Net income per share applicable to common shareholders:		
Basic	$ 1.26	$ 0.68
Diluted	$ 1.20	$ 0.65

The following table presents the amounts excluded from the computation of diluted net income per share applicable to common shareholders for the three months ended March 31, 2014 and 2013 as the inclusion of these securities would have been anti-dilutive (in thousands):

	Three Months Ended March 31,	
	2014	2013
Stock options	121	590
Restricted stock awards	68	—

Basic and diluted net income per share also takes into consideration the two-class method. Under the two-class method, undistributed net income is allocated to common stock and unvested participating securities based on their respective rights to share in dividends. We have determined that restricted stock awards represent participating securities and, therefore, require the use of the two-class method for the calculation of basic and diluted earnings per share. During the three months ended March 31, 2014, we issued restricted stock units to certain employees under our 2006 Equity Incentive Plan. Because the holders of the restricted stock units will only receive dividends on restricted stock units that have vested prior to us declaring dividends, we have determined that the restricted stock units are non-participating securities and will not be included in our two-class method calculation.

The following table sets forth the calculation of unallocated undistributed earnings, both basic and diluted, using the two-class method for amounts attributable to our common stock and our restricted stock awards (in thousands):

	Three months ended March 31,	
	2014	2013
Net income applicable to common shareholders	$ 74,310	$ 39,064
Less: Dividends declared	18,285	14,751
Undistributed earnings	$ 56,025	$ 24,313
Common stock undistributed earnings	54,593	23,878
Unvested restricted stock award undistributed earnings	1,432	435
Total undistributed earnings	$ 56,025	$ 24,313

Dividend Program

Our Board of Directors has adopted a policy to pay a regular quarterly dividend in such amounts as the Board of Directors may determine from time to time. The Board of Directors declared an initial quarterly cash dividend of $0.20 per share to all shareholders of record at the close of business on October 31, 2012. In February 2013, we announced an increase in our quarterly cash dividend from $0.20 per share to $0.25 per share, and in October 2013, we announced a further increase in our quarterly cash dividend to $0.30 per share. Under the terms of the Merger Agreement with Mallinckrodt, we were permitted to pay a quarterly cash dividend of $0.30 per share on April 25, 2014, and we will be permitted to pay only one additional dividend of $0.30 per share (which has been scheduled for payment on July 8, 2014).

Goodwill, Intangibles and Purchased Technology

We determine the estimated fair values of goodwill and intangible assets with definite and/or indefinite lives based on valuations performed at the time of their acquisition in accordance with FASB ASC 350. Such valuations utilize forecasted financial information. In addition, certain amounts paid to third parties, such as our In Process R&D asset related to the acquisition of Synacthen, are capitalized and included in intangible assets on the accompanying consolidated balance sheets.

Goodwill and indefinite-lived intangibles are tested for impairment annually and in interim periods if certain events occur indicating the fair value may be below its carrying value using a two-step process. The first step is to identify a potential impairment, and the second step measures the amount of the impairment loss, if any. Goodwill is impaired if the carrying amount of a reporting unit’s goodwill exceeds its estimated fair value. We performed our annual goodwill and indefinite-lived impairment assessment as of December 31, 2013, noting no impairment. We continue to believe there is no impairment to our goodwill and indefinite-lived assets as of March 31, 2014.

Definite lived intangibles are amortized on an accelerated or straight-line basis over their estimated useful life. This determination is made based on the specific asset and the timing of recoverability from expected future cash flows.

We review the carrying value of our definite-lived intangibles and long-lived assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable. These assets are impaired when undiscounted expected future cash flows are less than the carrying value. Our judgments related to the expected useful lives of definite-lived intangibles and long-lived assets and our ability to realize undiscounted cash flows in excess of the carrying amounts of such assets are affected by factors such as ongoing maintenance and improvements of the assets, changes in economic conditions, our ability to successfully launch products, and changes in operating performance. In addition, we regularly evaluate our long-lived assets and may accelerate depreciation over the revised useful life if the asset has limited future value.

Goodwill and intangibles acquired in conjunction with the acquisition of BioVectra, consists of the following (in thousands):

	March 31, 2014	December 31, 2013
Acquired intangibles	$ 32,196	$ 33,186
Less accumulated amortization	(3,846)	(3,055)
Acquired intangibles, net	$ 28,350	$ 30,131
Goodwill	$ 19,790	$ 20,464

The following table summarizes the changes in the carrying amount of goodwill (in thousands):

Balance at December 31, 2013	$ 20,464
Currency translation	(674)
Balance at March 31, 2014	$ 19,790

The following table provides a rollforward of goodwill by country (in thousands):

	December 31, 2013	Additions from Purchase Accounting	Currency Translation	March 31, 2014
United States	$ —	$ —	$ —	$ —
Canada	20,464	—	(674)	19,790
Total	$ 20,464	$ —	$ (674)	$ 19,790

The following table provides a rollforward of the intangibles (in thousands):

	March 31, 2014			
	Gross Book Value	Accumulated Amortization	Currency Translation	Net Book Value
Trademark	$ 8,151	$ —	$ (826)	$ 7,325
Patent	58	(22)	(5)	$ 31
Contracted customer relationships	17,208	(2,004)	(1,630)	$ 13,574
Non-contracted customer relationships	10,164	(1,820)	(924)	$ 7,420
Total acquired intangibles	$ 35,581	$ (3,846)	$ (3,385)	$ 28,350

The following table summarizes the changes in the carrying amount of intangibles (in thousands):

Balance at December 31, 2013	$ 30,131
Amortization expense	(791)
Currency translation	(990)
Balance at March 31, 2014	$ 28,350

Amortization expense for BioVectra's intangibles totaled $0.8 million for each of the three months ended March 31, 2014 and 2013. The estimated annual amortization expense for intangible assets is approximately $2.4 million in 2014, $3.2 million in 2015, $3.0 million in 2016, $2.8 million in 2017, $2.6 million in 2018 and $7.3 million thereafter. Amortizable intangible assets are amortized over 8 to 10 years (9 years average). Customer relationships are amortized on an accelerated basis over their useful lives.

Intangibles acquired in conjunction with the acquisition of Synacthen, consists of the following (in thousands):

	March 31, 2014	December 31, 2013
In process R&D asset	$ 196,663	$ 196,663
Less accumulated amortization	(7,675)	(5,212)
In process R&D asset, net	$ 188,988	$ 191,451

Amortization expense for the intangible acquired in conjunction with the acquisition of Synacthen totaled $2.5 million for the three months ended March 31, 2014. No amortization expense was recorded for the three months ended March 31, 2013. The estimated annual amortization expense for the intangible asset is approximately $7.4 million for the remainder of 2014, $9.8 million in 2015, $9.8 million in 2016, $9.8 million in 2017, $9.8 million in 2018 and $142.3 million thereafter. The in process R&D asset will be amortized over 20 years. We believe that this is the appropriate period because of the anticipated 7-8 years of development and the anticipated 11-12 years of patent exclusivity available thereafter.

Commitments and Contingencies

BioVectra receives funding from the Atlantic Canada Opportunities Agency (“ACOA”) which is contingently repayable on a royalty basis upon sales of commercialized products resulting from 4 projects. In the event that the products are not commercialized under the program or do not continue to generate revenues, the royalty agreement will be terminated without future obligation to BioVectra. Royalties paid under this agreement in the quarter ended March 31, 2014 were immaterial.

On January 18, 2013, we completed our acquisition of BioVectra. We acquired 100% of the issued and outstanding shares of BioVectra for $50.3 million utilizing cash on hand. The former shareholders of BioVectra could receive additional cash consideration of up to C$50.0 million based on BioVectra's financial results over the next 3 years. Contingent consideration in conjunction with the acquisition of BioVectra of $30.4 million was recorded on our Consolidated Balance Sheet at the acquisition date. Any differences between our estimate and actual payments or subsequent adjustments will be recorded in operating expenses. Consequently, in 2013, BioVectra met its performance milestones for the year and earned C$5.0 million in consideration. Additionally, financial projections for 2014 and 2015 improved, which resulted in an increase in the value of the contingent consideration, which was recorded during the fourth quarter of 2013 as a reduction to operating income.

On June 11, 2013, the Effective Date, we acquired from Novartis a license to develop, market, manufacture, distribute, sell and commercialize Synacthen and Synacthen Depot for all uses in humans in the United States. Under the terms of the transaction agreements, we paid Novartis an upfront consideration of $60 million. We will also be making annual cash payments of $25 million on each of the first, second and third anniversaries of the Effective Date, a potential additional annual cash payment on each anniversary subsequent to the third anniversary until we obtain the first approval of the FDA related to the products, or the FDA Approval, and a milestone payment upon our receipt of the FDA Approval. If we successfully obtain the FDA Approval, we will pay an annual royalty to Novartis based on a percentage of the net sales of the product in the U.S. market until the maximum payment is met. The first three annual payments aggregating to $75 million are secured by a letter of credit and classified as restricted cash on the Condensed Consolidated Balance Sheets. In no event will the total payments related to this transaction exceed $300 million.

We operate in a highly regulated industry. We are subject to the regulatory authority of the SEC, the FDA and numerous other federal, state and foreign governmental agencies including state attorney general offices, which have become more active in investigating the business practices of pharmaceutical companies.

Employment Agreements

We have entered into employment and severance agreements with our corporate officers that provide for, among other things, base compensation and/or other benefits in certain circumstances in the event of termination or a change in control. In addition, certain of the agreements provide for the accelerated vesting of outstanding unvested stock options upon a change in control.

Indemnifications

As permitted under California law and in accordance with our Amended and Restated Bylaws, we indemnify our officers and directors for certain events or occurrences while the officer or director is or was serving at our request in such capacity. The potential future indemnification limit is to the fullest extent permissible under California law. However, we have a director and officer insurance policy that limits our exposure and may enable us to recover a portion of any future amounts paid. We believe

the fair value of these indemnification agreements in excess of applicable insurance coverage is minimal. Accordingly, we have no liabilities recorded for these agreements as of March 31, 2014 and December 31, 2013.

Glenridge Litigation

In June 2011, Glenridge Pharmaceuticals LLC, or Glenridge, filed a lawsuit against us in the Superior Court of California, Santa Clara County, alleging that we had underpaid royalties to Glenridge, in connection with the timing of the impact of various offsets in the calculation of net sales. In August 2012, we filed a separate lawsuit against the three principals of Glenridge, as well as Glenridge, challenging the enforceability of our agreement with Glenridge. Our lawsuit alleges that Kenneth Greathouse breached his fiduciary duties to the Company and that his partners at Glenridge aided and abetted his breach. In August 2013, the two lawsuits were consolidated into one case in the Superior Court of California, Santa Clara County. We filed a motion for summary adjudication seeking to declare our agreement with Glenridge unenforceable. The Court denied it on March 6, 2014, finding that triable issues of fact existed as to whether the Glenridge agreement was enforceable. Glenridge subsequently filed its own motion for summary judgment that seeks to dismiss Questcor's affirmative claims on the grounds that they are time-barred. Glenridge's motion will be heard on June 3, 2014.

USAO Investigation

On September 21, 2012, we became aware of an investigation by the United States Attorney's Office, or the USAO, for the Eastern District of Pennsylvania regarding our promotional practices. Following our September 24, 2012 announcement of this investigation, we received a subpoena from the USAO for information relating to our promotional practices. We have been informed by the USAO for the Eastern District of Pennsylvania that the USAO for the Southern District of New York and the SEC are also participating in the investigation to review our promotional practices and related matters. We continue to cooperate with the USAO and the SEC with regard to this investigation.

Putative Class Action Securities Litigation

On September 26, 2012, a putative class action lawsuit was filed against us and certain of our officers and directors in the United States District Court for the Central District of California, captioned *John K. Norton v. Questcor Pharmaceuticals, et al.*, No. SACv12-1623 DMG (FMOx). The complaint purports to be brought on behalf of shareholders who purchased our common stock between April 26, 2011 and September 21, 2012. The complaint generally alleges that we and certain of our officers and directors engaged in various acts to artificially inflate the price of our stock and enable insiders to profit through stock sales. The compliant asserts that we and certain of our officers and directors violated sections 10(b) and/or 20(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, by making allegedly false and/or misleading statements concerning the clinical evidence to support the use of Acthar for indications other than infantile spasms, the promotion of the sale and use of Acthar in the treatment of MS and nephrotic syndrome, reimbursement for Acthar from third-party insurers, and our outlook and potential market growth for Acthar. The complaint seeks damages in an unspecified amount and equitable relief against the defendants. This lawsuit has been consolidated with four subsequently-filed actions asserting similar claims under the caption: *In re Questcor Securities Litigation*, No. CV 12-01623 DMG (FMOx). On October 1, 2013, the District Court granted in part and denied in part our motion to dismiss the consolidated amended complaint. On October 29, 2013, we filed an answer to the consolidated amended complaint.

Federal Shareholder Derivative Litigation

On October 4, 2012, another alleged shareholder filed a derivative lawsuit in the United States District Court for the Central District of California captioned *Gerald Easton v. Don M. Bailey, et al.*, No. SACV12-01716 DOC (JPRx). The suit asserts claims substantially identical to those asserted in the *do Valle* derivative action described below against the same defendants. This lawsuit has been consolidated with five subsequently-filed actions asserting similar claims under the caption: *In re Questcor Shareholder Derivative Litigation*, CV 12-01716 DMG (FMOx). Following the resolution of the motion to dismiss in the consolidated putative securities class action, the court issued an order staying the federal derivative action until the earlier of: (a) sixty (60) days after the resolution of any motion for summary judgment filed in the putative class action lawsuit, (b) sixty (60) days after the deadline to file a motion for summary judgment in the putative class action lawsuit, if none is filed, or (c) the execution of any settlement agreement (including any partial settlement agreement) to resolve the putative class action lawsuit.

State Shareholder Derivative Litigation

On October 2, 2012, an alleged shareholder filed a derivative lawsuit purportedly on behalf of the Company against certain of our officers and directors in the Superior Court of the State of California, Orange County, captioned *Monika do Valle v. Virgil D. Thompson, et al.*, No. 30-2012-00602258-CU-SL-CXC. The complaint asserts claims for breach of fiduciary duty, abuse of control, mismanagement and waste of corporate assets arising from substantially similar allegations as those contained

in the putative securities class action described above, as well as from allegations relating to sales of our common stock by the defendants and repurchases of our common stock. The complaint seeks an unspecified sum of damages and equitable relief. On October 24, 2012, another alleged shareholder filed a derivative lawsuit purportedly on behalf of the Company against certain of our officers and directors in the Superior Court of the State of California, Orange County, captioned *Jones v. Bailey, et al.*, Case No. 30-2012-00608001-CU-MC-CXC. The suit asserts claims substantially identical to those asserted in the *do Valle* derivative action. On February 19, 2013, the court issued an order staying the state derivative actions until the putative federal securities class action and federal derivative actions are resolved.

Put Options Securities Action

In March 2013, individual traders of put options filed a securities complaint in the United States District Court for the Central District of California captioned *David Taban, et al. v. Questcor Pharmaceuticals, Inc.*, No. SACV13-0425. The complaint generally asserts claims against us and certain of our officers and directors for violations of the Exchange Act and for state law fraud and fraudulent concealment based on allegations similar to those asserted in the putative securities class action described above. The complaint seeks compensatory damages in an amount equal to $5 million and punitive damages of an unspecified amount. Following the resolution of the motion to dismiss in the consolidated putative securities class action, the court issued an order staying this action until the earlier of: (a) sixty (60) days after the resolution of any motion for summary judgment filed in the putative class action lawsuit, (b) sixty (60) days after the deadline to file a motion for summary judgment in the putative class action lawsuit, if none is filed, or (c) the execution of any settlement agreement (including any partial settlement agreement) to resolve the putative class action lawsuit.

Retrophin Litigation

In January 2014, Retrophin Inc. filed a lawsuit against us in the United States District Court for the Central District of California, alleging a variety of federal and state antitrust violations based on our acquisition from Novartis of certain rights to develop, market, manufacture, distribute, sell and commercialize Synacthen. We filed a motion to dismiss the complaint in March 2014. A hearing on the motion is currently scheduled for May 30, 2014.

Putative Class Action Securities Litigation Related to the Merger Since the announcement of the merger agreement on April 7, 2014, Questcor, Mallinckrodt, Merger Sub, and Questcor's board of directors have been named as defendants in seven putative class and derivative actions on behalf of an alleged class of Questcor stockholders in the Superior Court of California, County of Orange. The complaints allege, inter alia, that the proposed merger between Questcor and Mallinckrodt involves an unfair price, an inadequate sales process, self-dealing, and unreasonable deal protection devices.

We believe that the probability of unfavorable outcome or loss related to these matters and an estimate of the amount or range of loss, if any, from an unfavorable outcome are not determinable at this time. We believe we have meritorious legal positions and will continue to represent our interests vigorously in these matters. However, responding to government investigations, defending any claims raised, and any resulting fines, restitution, damages and penalties, settlement payments or administrative actions, as well as any related actions brought by shareholders or other third parties, could have a material impact on our reputation, business and financial condition and divert the attention of our management from operating our business.

Segment Reporting

We have historically operated in one business segment. On January 18, 2013, we acquired 100% of the issued and outstanding shares of BioVectra Inc. We now manage our operations through two operating segments which are defined by our separate companies - Questcor and BioVectra. Each segment is operated as an independent business under its own management team, and has responsibility for its commercial activities, operations, and research and development activities related to its products. We intend to have BioVectra continue to operate independently under its existing management team for the foreseeable future.

Segment results for net sales are presented in the same manner as we present our operations internally to make operating decisions and assess performance. Net income, which includes the negative impact of purchase price adjustments related to our January 18, 2013 acquisition of BioVectra, is the primary responsibility of segment operating management and therefore all activities remain in the segment in which incurred for performance assessment by our chief operating decision maker.

Financial Information by Operating Segment. For the three months ended March 31, 2014 and 2013, information regarding our net sales and net income for our operating segments is as follows (in millions):

	Questcor	BioVectra	Intersegment Eliminations	Consolidated
Net Sales				
For the three months ended March 31, 2014	$ 209,768	$ 17,336	$ —	$ 227,104
For the three months ended March 31, 2013	$ 126,771	$ 8,385	$ (27)	$ 135,129
Net Income				
For the three months ended March 31, 2014	$ 70,335	$ 3,975	$ —	$ 74,310
For the three months ended March 31, 2013	$ 40,824	$ (1,755)	$ (5)	$ 39,064

As of March 31, 2014 and December 31, 2013, information regarding total assets for our operating segments is as follows (in millions):

	Questcor	BioVectra	Intersegment Eliminations	Consolidated
Total Assets				
March 31, 2014	$ 802,315	$ 108,924	$ (82,843)	$ 828,396
December 31, 2013	$ 711,507	$ 108,510	$ (83,663)	$ 736,354

As of March 31, 2014 and December 31, 2013, information regarding capital expenditures for our operating segments is as follows (in millions):

	Questcor	BioVectra	Intersegment Eliminations	Consolidated
Total Capital Expenditures				
March 31, 2014	$ 192	$ 2,060	$ —	$ 2,252
December 31, 2013	$ 1,100	$ 2,426	$ 10	$ 3,536

Income Taxes

We account for income taxes under the provisions of Accounting Standards Codification, 740 “Income Taxes,” or ASC 740. We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheets.

As part of the process of preparing our consolidated financial statements, we are required to estimate income taxes in each of the jurisdictions in which we operate. This process involves estimating our tax exposure under the most current tax laws and assessing temporary and/or permanent differences resulting from differing treatment of items for tax and accounting purposes, which may result in uncertain tax positions.

We regularly assess the likelihood that we will be able to recover our deferred tax assets, which is ultimately dependent on us generating future taxable income. We consider all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. If it is not considered “more likely than not” that we will recover our deferred tax assets, we will increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable.

Equity Transactions

On February 29, 2008, our Board of Directors approved a stock repurchase plan that provides for the repurchase of up to 7 million shares of our common stock. Stock repurchases under this plan may be made through either open market or privately negotiated transactions in accordance with all applicable laws, rules and regulations. On May 29, 2009 and May 10, 2012, our Board of Directors increased the stock repurchase plan authorization by an additional 6.5 million shares and 5 million shares, respectively. On September 28, 2012, our Board of Directors increased the remaining shares authorized under the stock repurchase plan to 7 million shares. This authorization included the 3.2 million shares previously outstanding from previous authorizations.

During the three months ended March 31, 2013, we used $29.0 million of our cash to repurchase 798,285 shares of our common stock. During the three months ended March 31, 2014, we did not repurchase any shares of our common stock. Under

this share repurchase plan, we have repurchased a total of 17.0 million shares of our common stock for $363.0 million through March 31, 2014, at an average price of $21.40 per share. As of March 31, 2014, there are approximately 5.3 million shares authorized remaining under our stock repurchase plan. Additionally, we have repurchased 6.2 million shares outside of the approved share repurchase plan, for $30.3 million at an average purchase price of $4.93 per share. Total shares repurchased were 23.1 million for $393.3 million at an average price of $17.01 per share.

Our equity incentive award plan is broad-based and every Questcor full-time employee and certain Questcor part-time employees are eligible to receive a grant. The increase in our share-based compensation is due to the increase in Questcor employees from 329 on March 31, 2013 to 490 employees on March 31, 2014.

For the three months ended March 31, 2014, we granted options to employees and non-employee directors to purchase 14,150 shares of our common stock at a weighted average exercise price of $54.22 per share, which was equal to the weighted average of the fair market value of our common stock on the date of each grant. For the three months ended March 31, 2013, we granted options to employees and non-employee directors to purchase 202,750 shares of our common stock at a weighted average exercise price of $26.47 per share, which was equal to the weighted average of the fair market value of our common stock on the date of each grant. The total share-based compensation costs for the three months ended March 31, 2014 and 2013 included $2.8 million and $3.4 million, respectively, related to option grants.

For the three months ended March 31, 2014 and 2013, we issued 417,201 and 666,203 restricted stock awards, respectively. For the three months ended March 31, 2014, we issued 141,500 shares of performance-based restricted stock awards to executive officers and certain other employees. These performance-based restricted stock awards include a one-time performance achievement and vest according to the degree at which the performance milestone was achieved. At March 31, 2014, we estimated an achievement equal to a vesting of 40% of the performance-based restricted stock awards and recorded stock-based compensation expense associated with such grants. For the three months ended March 31, 2013, we issued 194,750 shares of performance-based restricted stock awards to executive officers and certain other employees. These performance-based restricted stock awards include a one-time performance achievement and vested according to the degree at which the performance milestone was achieved. During the first quarter of 2014, we determined that the 2013 performance-based restricted stock awards achieved a performance level equal to one-third vesting. The total share-based compensation costs for the three months ended March 31, 2014 and 2013 included $5.4 million and $2.7 million, respectively, related to restricted stock awards issued in prior periods.

For the three months ended March 31, 2014, we issued 15,825 restricted stock units to certain employees. No restricted stock units were granted for the three months ended March 31, 2013. The total share-based compensation costs for the three months ended March 31, 2014 included $0.1 million related to restricted stock units.

Subsequent Events

On April 5, 2014, we entered into a definitive merger agreement (the “Merger Agreement”) with Mallinckrodt plc, an Irish public limited company (“Mallinckrodt”), and Quincy Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Mallinckrodt (“Merger Sub”), pursuant to which, subject to the terms and conditions set forth in the Merger Agreement, Merger Sub will be merged with and into Questcor (the “Merger”), with Questcor continuing as the surviving corporation. As a result of the Merger, Questcor will become an indirect wholly owned subsidiary of Mallinckrodt.

The Merger Agreement provides that, upon completion of the Merger, each share of our common stock issued and outstanding immediately prior to the Merger (other than dissenting shares, shares of restricted common stock granted to individuals other than non-employee directors, and common stock owned by Questcor, Mallinckrodt, Merger Sub or any of their respective subsidiaries) will be converted into the right to receive a combination of (1) $30.00 per share of common stock in cash, without interest (the “Cash Consideration”), plus (2) 0.897 validly issued, fully paid and nonassessable Mallinckrodt ordinary shares (the “Stock Consideration,” together with the Cash Consideration, the “Merger Consideration”). The aggregate Merger Consideration consists of approximately 58.9 million Mallinckrodt ordinary shares and $1.875 billion in cash.

The Merger Agreement contains customary representations, warranties and covenants by Questcor, Mallinckrodt, and Merger Sub, including a covenant restricting our ability to pay any further dividends on our common stock during the period between signing of the Merger Agreement and consummation of the Merger, except for the $0.30 per share dividend which was paid on April 25, 2014 and a $0.30 per share dividend which has been declared by our Board of Directors and will be paid on July 8, 2014 to shareholders of record as of July 1, 2014.

The Merger Agreement provides that Questcor must pay a termination fee to Mallinckrodt equal to (i) $194,470,000 if the Merger Agreement is terminated under certain circumstances specified in the Merger Agreement, a competing proposal for Questcor was publicly disclosed and not withdrawn prior to the date of the Questcor shareholder meeting, and Questcor enters

into a definitive agreement for a competing proposal that is subsequently consummated, or consummates a competing transaction, in each case, within 12 months following such termination; or (ii) $55,560,000 if the Merger Agreement is terminated by Mallinckrodt or Questcor because the Questcor shareholder approval is not obtained (which would be credited against any Questcor termination fee that subsequently becomes payable as described in clause (i)). In the reciprocal circumstances listed in clause (i) of the prior sentence, Mallinckrodt must pay a termination fee to Questcor equal to $131,450,000, and in the reciprocal circumstances listed in clause (ii) of the prior sentence, Mallinckrodt must pay a termination fee to Questcor equal to $37,560,000.

The proposed Merger has been unanimously approved by the boards of directors of Questcor and Mallinckrodt, and is supported by the management teams of both companies. We currently expect the Merger to close in the third calendar quarter of 2014, subject to the satisfaction of customary closing conditions, including the approval of the shareholders of both companies and expiration of the waiting period (or extension thereof) under the Hart-Scott-Rodino Antitrust Improvement Act of 1976.

Litigation Related to the Merger

Since the announcement of the Merger on April 7, 2014, six putative class actions and one shareholder derivative action have been filed on behalf of alleged Questcor shareholders and/or Questcor itself in the Superior Court of the State of California, County of Orange, under the following captions: *Hansen v. Virgil D. Thompson, et al.*, Case No. 30-2014-00716108-CU-SL-CXC, filed April 7, 2014; *Heng v. Questcor Pharmaceuticals, Inc., et al.*, Case No. 30-2014-00716117-CU-BT-CXC, filed April 8, 2014; *Buck v. Questcor Pharmaceuticals, Inc., et al.*, Case No. 30-2014-00716694-CU-SL-CXC, filed April 10, 2014; *Ellerback v. Questcor Pharmaceuticals, Inc., et al.*, Case No. 30-2014-00717130-CU-SL-CXC, filed April 11, 2014; *Yokem v. Questcor Pharmaceuticals, Inc., et al.*, Case No. 30-2014-00717153-CU-SL-CXC, filed April 11, 2014; *Richter v. Questcor Pharmaceuticals, Inc., et al.*, Case No. 30-2014-00716761-CU-SL-CXC, filed April 11, 2014; and *Tramantano v. Questcor Pharmaceuticals, Inc., et al.*, Case No. 30-2014-00716638-CU-BT-CXC, filed April 15, 2014 (the "Complaints").

The Complaints name as defendants Questcor, members of Questcor's board of directors, Mallinckrodt, and Merger Sub. The plaintiffs allege that the board of directors breached their fiduciary duties to Questcor's shareholders in connection with the proposed merger and that Questcor, Mallinckrodt and Merger Sub aided and abetted the directors' breaches of fiduciary duties. The Complaints claim that the proposed merger between Questcor and Mallinckrodt involves an unfair price, an inadequate sales process, self-dealing, and unreasonable deal protection devices. The Complaints seek injunctive relief, including to enjoin or rescind the merger, and an award of other unspecified attorney's and other fees and costs, in addition to other relief.

On April 9 and 15, 2014, a law firm sent substantially identical letters to Questcor's board of directors, purportedly on behalf of two Questcor shareholders (the "Demand Letters"). The Demand Letters request that the board take certain actions in connection with the Merger, and indicate that in the event that the board does not take such actions, the shareholders will file a lawsuit seeking the same relief sought in the Complaints. We believe that the Complaints have no merit and intend to defend vigorously against them.

We evaluated subsequent events that have occurred after March 31, 2014, and determined that there were no other events or transactions occurring during this reporting period that require recognition or disclosure in our consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except for the historical information contained herein, the following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this section, in Item 1A "Risk Factors" of Part II of this Quarterly Report, those discussed in our Annual Report on Form 10-K for the year ended December 31, 2013, including Item 1 "Business of Questcor," and Item 1A "Risk Factors" of Part I of that Annual Report, as well as factors discussed in any documents incorporated by reference therein.

Overview

Business Overview

We are a biopharmaceutical company focused on the treatment of patients with serious, difficult-to-treat autoimmune and inflammatory disorders. We also supply specialty contract manufacturing services to the global pharmaceutical and biotechnology industry through our wholly-owned subsidiary, BioVectra Inc.

We have historically operated in one business segment. On January 18, 2013, we acquired all of the issued and outstanding shares of BioVectra Inc, a wholly-owned subsidiary through which we supply specialty contract manufacturing services to the global pharmaceutical and biotechnology industry. We now manage our operations through two operating segments that are defined by our separate companies - Questcor Pharmaceuticals, Inc. and BioVectra, Inc. Each segment is operated as an independent business under its own management team, and has responsibility for its commercial activities, operations, and research and development activities related to its products.

Except to the extent that differences among operating segments are material to an understanding of our business taken as a whole, the description of our business in this Form 10-Q is presented on a consolidated basis.

Questcor Pharmaceutical Segment

Our primary product is H.P. Acthar® Gel (repository corticotropin injection), or Acthar, an injectable drug that is approved by the U.S. Food and Drug Administration, or FDA, for the treatment of 19 indications. Of these 19 indications, we currently generated substantially all of our pharmaceutical net sales from the use of Acthar in connection with the following indications:

- Nephrotic Syndrome (NS): Acthar is indicated "to induce a diuresis or a remission of proteinuria in the nephrotic syndrome without uremia of the idiopathic type or that due to lupus erythematosus." According to the National Kidney Foundation, nephrotic syndrome can result from several idiopathic type kidney disorders, including idiopathic membranous nephropathy, focal segmental glomerulosclerosis, IgA nephropathy and minimal change disease. Nephrotic syndrome can also occur due to lupus erythematosus. In this Form 10-Q, the terms "nephrotic syndrome" and "NS" refer only to the proteinuria in nephrotic syndrome conditions that are covered by the Acthar label of approved indications.
- Rheumatology Related Conditions: Acthar is approved for the following rheumatology related conditions: (i) Collagen Diseases: Acthar is indicated "during an exacerbation or as maintenance therapy in selected cases of systemic lupus erythematosus, systemic dermatomyositis (polymyositis)" and (ii) Rheumatic Disorders: Acthar is indicated as "adjunctive therapy for short-term administration (to tide the patient over an acute episode or exacerbation) in: Psoriatic arthritis, Rheumatoid arthritis, including juvenile rheumatoid arthritis (selected cases may require low-dose maintenance therapy), Ankylosing spondylitis."
- Multiple Sclerosis (MS): Acthar is indicated "for the treatment of acute exacerbations of multiple sclerosis in adults. Controlled clinical trials have shown H.P. Acthar Gel to be effective in speeding the resolution of acute exacerbations of multiple sclerosis. However, there is no evidence that it affects the ultimate outcome or natural history of the disease."
- Infantile Spasms (IS): Acthar is indicated "as monotherapy for the treatment of infantile spasms in infants and children under 2 years of age."

We derive net sales of Acthar from our sales of vials to our distributor, which in turn sells Acthar primarily to specialty pharmacies. These specialty pharmacies place orders with our distributor based on their respective levels of sales and inventory practices. End-user demand for Acthar results from physicians writing prescriptions to patients for the treatment of NS, rheumatology related conditions, MS exacerbations, IS, respiratory manifestations of symptomatic sarcoidosis and various other conditions.

Acthar is a low-volume, specialty pharmaceutical product. Physicians do not purchase Acthar from Questcor for resale to patients. Typically, patients purchase Acthar directly from specialty pharmacies after receiving a prescription and after arranging for third party reimbursement (government or commercial insurance) - most often after satisfying a prior authorization requirement imposed by their insurance carrier or a third-party administrator for a government healthcare program. Alternatively, eligible patients who are uninsured or under-insured, may receive Acthar through a Questcor sponsored patient assistance program. We do not generate any revenue or net sales from the vials provided through our sponsored patient assistance programs.

Our research and development program for Acthar is focused on: (i) the continued evaluation of the use of Acthar for certain on-label indications; (ii) the investigation of other potential uses of Acthar for indications not currently FDA approved; and (iii) the expansion of our understanding of how Acthar works in the human body (pharmacology), and ultimately, its mechanism(s) of action in the disease states for which it is currently used, or may be used in the future. We have also implemented a research and development program for Synacthen.

Our primary corporate objectives for 2014 are to continue to create shareholder value by:

- continuing the commercial growth of our existing business,
- pursuing our efforts to grow the body of evidence for Acthar, and
- assessing various strategic opportunities.

To assist with maximizing our strategic options, our Board has established two committees: a Science Committee and a Strategic Advisory Committee. The committees will assist management and the Board in its ongoing assessment and development of potential strategies to supplement our strong sales growth, both organically through internal research and development activities and potentially through external strategic activity.

Acquisition of Synacthen

On June 11, 2013, the Effective Date, we acquired from Novartis AG and Novartis Pharma AG, collectively Novartis, a license to develop, market, manufacture, distribute, sell and commercialize Synacthen and Synacthen Depot for all uses in humans in the United States. Subject to certain conditions and limitations in the License Agreement, the license is exclusive, perpetual and irrevocable. Synacthen is a synthetic melanocortin agonist approved in various countries outside of the United States for certain autoimmune and inflammatory conditions. We are in the process of implementing a research and development program for Synacthen and intend to seek FDA approval. Synacthen has never been developed or approved for patients in the United States.

Subject to certain closing conditions, we also will acquire from Novartis a license and certain assets to develop, market, manufacture, distribute, sell and commercialize Synacthen and Synacthen Depot in certain countries outside the U.S. for all uses in humans. Subject to certain conditions and limitations, these rights and assets are exclusive, perpetual and irrevocable.

Under the terms of the transaction agreements, we paid Novartis an upfront consideration of $60.0 million. We will also be making annual cash payments of $25 million on each of the first, second and third anniversaries of the Effective Date, a potential additional annual cash payment on each anniversary subsequent to the third anniversary until we obtain the first approval of the FDA related to the products, or the FDA Approval, and a milestone payment upon our receipt of the FDA Approval. If we successfully obtain the FDA Approval, we will pay an annual royalty to Novartis based on a percentage of the net sales of the product in the U.S. market until the maximum payment is met. The first three annual payments aggregating to $75.0 million are secured by a letter of credit and classified as restricted cash on the Condensed Consolidated Balance Sheets. In no event will the total payments related to this transaction exceed $300 million.

BioVectra Segment

On January 18, 2013, we completed our acquisition of BioVectra Inc. As a result of this acquisition, we have greater control over the manufacturing and quality of the active pharmaceutical ingredient, or API, in Acthar.

We acquired 100% of the issued and outstanding shares of BioVectra for $50.3 million utilizing cash on hand. The former shareholders of BioVectra could receive additional cash consideration of up to C$50.0 million based on BioVectra's financial results over the next 3 years. Contingent consideration in conjunction with the acquisition of BioVectra of $30.4 million was recorded on our condensed consolidated balance sheet at the acquisition date. Any differences between our estimate and actual payments or subsequent adjustments will be recorded in operating expenses. Consequently, in 2013, BioVectra met its performance milestones for the year and earned an additional C$5.0 million in consideration. Additionally, financial

projections for 2014 and 2015 improved resulting in an increase in the value of the contingent consideration, which was recorded during the fourth quarter of 2013 as a reduction to operating income.

BioVectra is a supplier of contract manufacturing services to the global pharmaceutical and biotechnology industry. BioVectra manufactures API's, chemical intermediates, and bioprocessing reagents, and is our manufacturing partner for the API in our H.P. Acthar® Gel (repository corticotropin injection). BioVectra is proficient in synthetic organic chemistry, natural extraction of bioactive compounds, PEGylation and conjugation chemistry, and fermentation of chemical and biologic molecules.

Recent Developments

On April 5, 2014, we entered into a definitive merger agreement (the "Merger Agreement") with Mallinckrodt plc, an Irish public limited company ("Mallinckrodt"), and Quincy Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Mallinckrodt ("Merger Sub"), pursuant to which, subject to the terms and conditions set forth in the Merger Agreement, Merger Sub will be merged with and into Questcor (the "Merger"), with Questcor continuing as the surviving corporation. As a result of the Merger, Questcor will become an indirect wholly owned subsidiary of Mallinckrodt.

The Merger Agreement provides that, upon completion of the Merger, each share of our common stock issued and outstanding immediately prior to the Merger (other than dissenting shares, shares of restricted common stock granted to individuals other than non-employee directors, and common stock owned by Questcor, Mallinckrodt, Merger Sub or any of their respective subsidiaries) will be converted into the right to receive a combination of (1) $30.00 per share of common stock in cash, without interest (the "Cash Consideration"), plus (2) 0.897 validly issued, fully paid and nonassessable Mallinckrodt ordinary shares (the "Stock Consideration," together with the Cash Consideration, the "Merger Consideration"). The aggregate Merger Consideration consists of approximately 58.9 million Mallinckrodt ordinary shares and $1.875 billion in cash.

The Merger Agreement contains customary representations, warranties and covenants by Questcor, Mallinckrodt, and Merger Sub, including a covenant restricting our ability to pay any further dividends on our common stock during the period between signing of the Merger Agreement and consummation of the Merger, except for a $0.30 per share dividend which has been declared by our Board of Directors and will be paid in July 2014 to shareholders of record as of July 1, 2104.

The Merger Agreement provides that Questcor must pay a termination fee to Mallinckrodt equal to (i) $194,470,000 if the Merger Agreement is terminated under certain circumstances specified in the Merger Agreement, a competing proposal for Questcor was publicly disclosed and not withdrawn prior to the date of the Questcor shareholder meeting, and Questcor enters into a definitive agreement for a competing proposal that is subsequently consummated, or consummates a competing transaction, in each case, within 12 months following such termination; or (ii) $55,560,000 if the Merger Agreement is terminated by Mallinckrodt or Questcor because the Questcor shareholder approval is not obtained (which would be credited against any Questcor termination fee that subsequently becomes payable as described in clause (i)). In the reciprocal circumstances listed in clause (i) of the prior sentence, Mallinckrodt must pay a termination fee to Questcor equal to $131,450,000, and in the reciprocal circumstances listed in clause (ii) of the prior sentence, Mallinckrodt must pay a termination fee to Questcor equal to $37,560,000.

The proposed Merger has been unanimously approved by the boards of directors of Questcor and Mallinckrodt, and is supported by the management teams of both companies. We currently expect the Merger to close in the third calendar quarter of 2014, subject to the satisfaction of customary closing conditions, including the approval of the shareholders of both companies and expiration of the waiting period (or extension thereof) under the Hart-Scott-Rodino Antitrust Improvement Act of 1976.

Results of Operations

Three months ended March 31, 2014 compared to the three months ended March 31, 2013:

Recorded Net Sales

	Three Months Ended March 31,			
	2014	2013	Increase	% Change
	(in $000's)			
Total pharmaceutical gross sales	$ 221,414	$ 137,378	$ 84,036	61%
Sales reserves	11,646	10,607	1,039	10%
Total pharmaceutical net sales	209,768	126,771	82,997	65%
Total contract manufacturing net sales	17,336	8,358	8,978	107%
Total net sales	$ 227,104	$ 135,129	$ 91,975	68%

Net sales for the three months ended March 31, 2014 and 2013 were derived from pharmaceutical net sales and contract manufacturing net sales. Pharmaceutical net sales are comprised primarily of net sales of Acthar, while contract manufacturing net sales are comprised of sales from BioVectra. Net sales of Acthar for the three months ended March 31, 2014 increased 66% to $209.8 million as compared to $126.7 million during the same period in 2013. Net sales from our contract manufacturing increased 107% to $17.3 million as compared to $8.4 million during the same period in 2013.

The growth in our pharmaceutical net sales resulted primarily from increased vial demand from our specialty distributor for Acthar, a reduction in our sales related reserves and an increase in our selling price. We shipped 7,080 vials for the three months ended March 31, 2014 as compared to 4,830 vials shipped for the three months ended March 31, 2013. While we do not receive complete information regarding prescriptions by therapeutic area, we believe increased demand resulted from our entry into the rheumatology field in the second half of 2012 and the expansion of our Rheumatology Sales Force in early 2013.

In addition to the increase in vial demand, the increase in our pharmaceutical net sales was also attributable to the reduction in our sales related reserves as a percentage of sales. Our net sales of Acthar are impacted by the amount of our Medicaid and other sales reserves, which are deducted from pharmaceutical sales in the calculation of net sales. The decrease in the sales related reserves are due to reduction in the Medicaid rebate rate and the change in our business mix. First, for the three months ended March 31, 2014, the Medicaid rebate amount for Acthar was lower than for the corresponding quarter in 2013. During the first quarter of 2013, the Medicaid rebate amount for Acthar was reset in the Medicaid system from 100% of the AMP of Acthar to the basic rebate amount of 23.1% of AMP. Second, our business mix across therapeutic areas affects our provision for Medicaid rebates since the percentage of patients that are enrolled in Medicaid varies by therapeutic area. Specifically, a lower percentage of adults are enrolled in Medicaid than are infants. As such, growth in our non-IS sales relative to IS sales has resulted in an overall lower percentage of sales being attributable to patients enrolled in Medicaid. For the three months ended March 31, 2014, we recorded a provision of 4.9% of our gross revenue for sales-related reserves, a decrease from the 7.3% in the three months ended March 31, 2013.

Lastly, we believe that the increase in our pharmaceutical net sales is due to the increase in the selling price of Acthar. The price of Acthar was increased by 5% in both June 2013 and January 2014.

We believe that over half of our growth in net sales of Acthar from the three months ended March 31, 2013 to the three months ended March 31, 2014 was due to increased vial shipments, with the remainder of our net sales growth being due to the increase in the percentage of our product sales that are not subject to Medicaid rebates as described above, as well as increased product pricing. However, it is difficult to ascribe the sources of net sales growth to these individual factors as the factors might not be independent.

Net contract manufacturing sales from BioVectra for the three months ended March 31, 2014 were $17.3 million (representing 7.6% of total net sales), as compared to $8.4 million (representing 6.2% of total net sales) for the three months ended March 31, 2013. The increase in net contract manufacturing sales was due primarily to the growth in BioVectra's custom business during the quarter, including the production of commercial product for one of our largest customers.

Acthar orders may be affected by several factors, including inventory levels at specialty and hospital pharmacies, greater use of patient assistance programs, the overall pattern of usage by the health care community, including Medicaid and government-supported entities, the use of alternative therapies, and the reimbursement policies of insurance companies. Our specialty distributor ships Acthar to specialty pharmacies and hospitals to meet end user demand. We track Acthar shipments to

our distributor daily, but those shipments vary compared to end user demand and because of changes in inventory levels at specialty pharmacies and hospitals. As a result of the variation in order patterns, in channel inventory levels may be positively or negatively affected. We believe that channel inventory was within the normal historic range for the quarter ended March 31, 2014.

Cost of Sales and Gross Profit

	Three months ended March 31,	
	2014	2013
	(in $000's)	
Pharmaceutical cost of sales	$ 12,315	$ 8,036
Contract manufacturing cost of sales	9,095	8,153
Total cost of sales	$ 21,410	$ 16,189
Pharmaceutical gross profit	$ 197,453	$ 118,735
Contract manufacturing gross profit	8,241	205
Total gross profit	$ 205,694	$ 118,940
Pharmaceutical gross margin	94%	94%
Contract manufacturing gross margin	48%	3%
Total gross margin	91%	88%

Cost of sales was $21.4 million for the three months ended March 31, 2014, as compared to $16.2 million for the three months ended March 31, 2013. Our gross margin and gross profit was 91%, or $205.7 million, respectively, for the three months ended March 31, 2014, as compared to 88%, or $118.9 million, respectively, for the three months ended March 31, 2013.

Cost of sales for the three months ended March 31, 2014 primarily included costs associated with the sale of Acthar ($12.3 million or 58% of the total cost of sales) and costs associated with our manufacturing activity at BioVectra ($9.1 million or 42% of the total cost of sales). Costs of sales for the three months ended March 31, 2013 primarily included costs associated with the sale of Acthar ($8.0 million or 50% of total cost of sales) and costs associated with our manufacturing activity at BioVectra ($8.2 million or 50% of total cost of sales). We include in cost of sales direct material costs, manufacturing labor, indirect manufacturing costs including plant supplies, packaging, warehousing and distribution, royalties, product liability insurance, quality control (which primarily includes product stability and potency testing), quality assurance, depreciation of manufacturing equipment and facilities and reserves for excess or obsolete inventory.

The increase in gross profit dollars is due to continued growth in vials sold for all of our indications. The increase in cost of sales was primarily due to an increase in royalties on Acthar net sales and the increase in costs associated with the distribution of Acthar, including our hub reimbursement support center.

The increase in the overall gross margin quarter over quarter is due to higher profit margins realized at our contract manufacturer, coupled with unexpected manufacturing costs for additional external testing and additional repair and maintenance costs on a new production plant experienced in 2013.

We continue to expect our cost of sales, in absolute dollars, to increase in future periods due to the inclusion of BioVectra, increased costs associated with our hub reimbursement support center, outside product potency testing, product stability testing and, in the event of increased net sales, higher royalty payments. The manufacturing process for pharmaceutical products, including Acthar, and other pharmaceutical ingredients, is complex and problems may arise during manufacturing for a variety of reasons, including equipment malfunction, failure to follow specific protocols and procedures, problems with raw materials, natural disasters, and environmental factors.

Selling and Marketing

	Three Months Ended March 31,		Increase/ (Decrease)	% Change
	2014	2013		
	(in $000's)			
Selling and marketing expense	$ 47,067	$ 35,461	$ 11,606	33%

Selling and marketing expenses were $47.1 million for the three months ended March 31, 2014, as compared to $35.5 million for the three months ended March 31, 2013. The increase of $11.6 million in 2014 as compared to 2013 is due primarily to increases in headcount-related costs and costs associated with our expanded sales and marketing efforts. We include in sales and marketing expenses headcount-related costs, including share-based compensation costs, promotional costs and physician program costs. We have expanded our sales force and expect selling and marketing expenses to increase in future periods.

General and Administrative

	Three Months Ended March 31,		Increase/ (Decrease)	% Change
	2014	2013		
	(in $000's)			
General and administrative expense	$ 22,627	$ 12,548	$ 10,079	80%

General and administrative expenses were $22.6 million for the three months ended March 31, 2014, as compared to $12.5 million for the three months ended March 31, 2013. We include in general and administrative expenses headcount-related costs, including stock-based compensation expense, legal and accounting expenses. The increase of $10.1 million in 2014 as compared to 2013 is due primarily to increased headcount and headcount-related costs to support our growth, and increased legal costs.

Research and Development

	Three Months Ended March 31,		Increase/ (Decrease)	% Change
	2014	2013		
	(in $000's)			
Research and development	$ 19,929	$ 10,793	$ 9,136	85%

Research and development expenses were $19.9 million in the three months ended March 31, 2014, as compared to $10.8 million for the three months ended March 31, 2013. The increase of $9.1 million in research and development expenses for the three months ended March 31, 2014 as compared to the same period in 2013 was primarily due to increases in headcount and headcount-related costs.

Costs included in research and development also include costs associated with providing financial grants to support medical research projects to better understand the therapeutic benefit of Acthar in current and new therapeutic applications, product development efforts and regulatory compliance activities.

We manage and evaluate our research and development expenditures generally by the type of costs incurred. We generally classify and separate research and development expenditures into amounts related to medical affairs, regulatory, product development and manufacturing costs. Such categories include the following types of costs:

- Regulatory Costs - Regulatory costs, which include compliance and all FDA interactions.
- Product Development Costs - Product development costs, which include contract research organization costs and study monitoring costs.
- Medical Affairs Costs - Medical affairs costs, which include activities related to medical information in support of Acthar and its related indications, as well as costs associated with providing financial grants to support third-party research and development efforts.

Manufacturing Costs - Manufacturing costs, which include costs related to production scale-up and validation, raw material qualification and stability studies.

For the three months ended March 31, 2014, approximately 4% of our research and development expenditures were for regulatory costs, 59% was spent on product development costs, 25% of our research and development expenditures were for medical affairs costs, and approximately 12% was spent on manufacturing costs.

For the three months ended March 31, 2013, approximately 4% of our research and development expenditures were for regulatory costs, 41% was spent on product development costs, 43% of our research and development expenditures were for medical affairs costs, and approximately 12% was spent on manufacturing costs.

We continue to invest in Acthar through the expansion of our product development efforts and expect our research and development expense to continue to increase.

The expenditures that will be necessary to execute our development plans are subject to numerous uncertainties, which may affect our research and development expenditures and capital resources. For instance, the duration and the cost of clinical trials may vary significantly depending on a variety of factors including a trial's protocol, the number of patients in the trial, the duration of patient follow-up, the number of clinical sites in the trial, and the length of time required to enroll suitable patient subjects. Even if earlier results are positive, we may obtain different results in later stages of development, including failure to show the desired safety or efficacy, which could impact our development expenditures for a particular indication. Although we spend a considerable amount of time planning our development activities, we may be required to deviate from our plan based on new circumstances or events or our assessment from time to time of a particular indication's market potential, other product opportunities and our corporate priorities. Any deviation from our plan may require us to incur additional expenditures or accelerate or delay the timing of our development spending. Furthermore, as we obtain results from trials and review the path toward regulatory approval, we may elect to discontinue development of certain indications or product candidates, in order to focus our resources on more promising indications or candidates. As a result, the amount or ranges of cost and timing to complete our product development programs and each future product development program is not estimable.

With our June 2013 acquisition of rights to Synacthen, we have initiated a research and development effort for Synacthen aimed at obtaining FDA and additional international approvals of Synacthen for one or more indications. This will be a multi-year effort, require a significant investment of time and resources including financial resources, and will be subject to numerous risks and uncertainties.

Share-based compensation costs. Total share-based compensation costs for the three months ended March 31, 2014 and 2013 were $8.7 million and $6.1 million, respectively.

Our equity incentive award plan is broad-based and every Questcor full-time employee and certain Questcor part-time employees are eligible to receive a grant. The increase in our share-based compensation is due to the increase in Questcor employees from 329 on March 31, 2013 to 490 employees on March 31, 2014.

For the three months ended March 31, 2014, we granted options to employees and non-employee directors to purchase 14,150 shares of our common stock at a weighted average exercise price of $54.22 per share, which was equal to the weighted average of the fair market value of our common stock on the date of each grant. For the three months ended March 31, 2013, we granted options to employees and non-employee directors to purchase 202,750 shares of our common stock at a weighted average exercise price of $26.47 per share, which was equal to the weighted average of the fair market value of our common stock on the date of each grant. The total share-based compensation costs for the three months ended March 31, 2014 and 2013 included $2.8 million and $3.4 million, respectively, related to option grants.

For the three months ended March 31, 2014 and 2013, we issued 417,201 and 666,203 restricted stock awards, respectively. For the three months ended March 31, 2014, we issued 141,500 shares of performance-based restricted stock awards to executive officers and certain other employees. These performance-based restricted stock awards include a one-time performance achievement and vest according to the degree at which the performance milestone was achieved. At March 31, 2014, we estimated an achievement equal to a vesting of 40% of the performance-based restricted stock awards and recorded stock-based compensation expense associated with such grants. For the three months ended March 31, 2013, we issued 194,750 shares of performance-based restricted stock awards to executive officers and certain other employees. These performance-based restricted stock awards include a one-time performance achievement and vested according to the degree at which the performance milestone was achieved. During the first quarter of 2014, we determined that the 2013 performance-based restricted stock awards achieved a performance level equal to one-third vesting. The total share-based compensation costs for the three months ended March 31, 2014 and 2013 included $5.4 million and $2.7 million, respectively, related to restricted stock awards issued in prior periods.

For the three months ended March 31, 2014, we issued 15,825 restricted stock units to certain employees. No restricted stock units were granted for the three months ended March 31, 2013. The total share-based compensation costs for the three months ended March 31, 2014 included $0.1 million related to restricted stock units.

The following table sets forth our share-based compensation costs for the three months ended March 31, 2014 and 2013, respectively (in thousands):

	Three Months Ended March 31,	
	2014	2013
Selling and marketing	$ 3,117	$ 2,454
General and administrative	3,835	2,538
Research and development	1,744	1,156
Total	$ 8,696	$ 6,148

Depreciation and amortization. Depreciation and amortization expense for the three months ended March 31, 2014 was $1.0 million, as compared to $1.1 million for the three months ended March 31, 2013.

Income tax expense. Income tax expense for the three months ended March 31, 2014 was $38.6 million, as compared to $18.5 million for the three months ended March 31, 2013. The increase in income tax expense of $20.1 million in 2014 as compared to 2013 was primarily due to the increase in income before income taxes. Our foreign earnings attributable to the BioVectra acquisition will be permanently reinvested in such foreign jurisdiction and, therefore, no deferred tax liabilities for U.S. income taxes have been provided for on any undistributed earnings.

Liquidity and Capital Resources

Cash and cash equivalents, short term investments and working capital as of March 31, 2014 and December 31, 2013 were as follows (in thousands):

Financial Assets:

	March 31, 2014	December 31, 2013
Cash and cash equivalents	$ 261,102	$ 175,840
Short term investments	75,021	69,166
Cash, cash equivalents and short term investments	$ 336,123	$ 245,006

Select measures of liquidity and capital resources:

	March 31, 2014	December 31, 2013
Current assets	$ 494,480	$ 396,776
Current liabilities	188,044	161,172
Working Capital	$ 306,436	$ 235,604
Current ratio	2.63	2.46

Until required for use in our business or returned to shareholders through our dividend, share repurchase program or other method, we invest our cash reserves in money market funds and high quality commercial, corporate and U.S. government and agency bonds in accordance with our investment policy. The objective of our investment policy is to preserve capital, provide liquidity consistent with forecasted cash flow requirements, maintain appropriate diversification and generate returns relative to these investment objectives and prevailing market conditions.

The increase in cash, cash equivalents and short-term investments from December 31, 2013 to March 31, 2014 was primarily due to the increase in the related cash generated from operations. The increase in our working capital was primarily due to increases in our overall cash position, accounts receivable, offset primarily by an increase in income taxes payable due to continued growth in income before income taxes.

Our collection terms on our accounts receivable relating to sales of Acthar to our specialty distributor are net 30 days. Our specialty distributor represents approximately 88% of our accounts receivable and 93% of our net sales.

We expect continued growth in our research and development expenses. However, we anticipate that cash generated from operations and our existing cash, cash equivalents and short-term investments should provide us adequate resources to fund our operations as currently planned for the foreseeable future.

Cash Flows

Change in cash and cash equivalents:

(in $000's)	Three Months Ended March 31, 2014	2013	Increase/ (Decrease)
Net cash flows provided by operating activities	$ 106,074	$ 41,452	$ 64,622
Net cash flows provided by investing activities	(7,924)	(50,755)	42,831
Net cash flows used in financing activities	(12,557)	4,183	(16,740)
Impact of exchange rates on cash flows	(331)	(84)	(247)
Net change in cash and cash equivalents	$ 85,262	$ (5,204)	$ 90,466

Operating Activities

The components of cash flows from operating activities, as reported on our condensed consolidated statement of cash flows, are as follows:

- Our reported net income, adjusted for non-cash items, including share-based compensation expense, deferred income taxes, amortization of investments, depreciation and amortization, impairment of purchased intangibles and goodwill, loss on disposal of property and equipment, change in fair value of contingent consideration, imputed interest on contingent consideration and other compensation expense was $94.2 million and $49.2 million for the three months ended March 31, 2014 and 2013, respectively.

- Net cash inflow due to changes in operating assets and liabilities was $11.8 million for the three months ended March 31, 2014 compared to the net cash outflow of $7.7 million for the three months ended March 31, 2013. The $11.8 million change in operating assets and liabilities primarily relates an increase in income taxes payable of $18.5 million as a result of continued growth in our income before income taxes, offset by a decrease in accrued compensation of $2.2 million as a result of the 2013 corporate bonus pool payout during the quarter, a decrease in sales related reserves of $1.6 million due to the favorable change in our Medicaid rebate rate, and an increase in our accounts receivable of $8.8 million due to principally to an increase in our selling price of 5% taken in January 2014.

Investing Activities

The components of cash flows from investing activities consisted primarily of the following:

- Purchases of property and equipment of $2.3 million;

- Purchases of short term investments of $21.2 million; and

- Maturities of short term investments of $15.1 million.

Financing Activities

Net cash flows from financing activities consist primarily of the following:

- the income tax benefit realized on our share-based compensation plans of $10.0 million; offset by

- the net cash outflow from the vesting of restricted stock awards whereby the Company has repurchased shares equivalent to the amount due for taxes of $4.1 million; and

- the dividends paid during the quarter in the amount of $18.1 million.

We review our level of liquidity and anticipated cash needs for the business on an ongoing basis, and consider whether to return additional capital to our shareholders as well as alternative methods to return capital. Historically, our primary method of returning capital to shareholders has been open market share repurchases and dividend payments. Since the beginning of 2008, we have repurchased a total of 23.1 million shares of our common stock under our stock repurchase plan for $393.3 million through March 31, 2014, at an average price of $17.01 per share. As of March 31, 2014, there are 5.3 million shares authorized remaining under our stock repurchase plan.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary objective of our investment policy is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. Some of the securities that we have invested in have had market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later increases, the principal amount of our investment probably will decline. In an attempt to limit interest rate risk, we follow guidelines to limit the average and longest single maturity dates. Our investments include money market accounts, government-sponsored enterprises, certificates of deposit and municipal bonds. None of our investments are in auction rate securities. Seeking to minimize credit risk, we place our investments with high quality issuers and follow internally developed guidelines to limit the amount of credit exposure to any one issuer.

As a result of our foreign operations, we face exposure to movements in foreign currency exchange rates, primarily the Canadian dollar to the U.S. dollar. After the expected close of the Asset Purchase Agreement between us and Novartis for the purchase of Synacthen in approved countries outside of the United States, we will face additional exposure in other foreign currencies. The current exposures arise primarily from cash, accounts receivable, intercompany receivables and payables, and product sales denominated in foreign currencies. Both positive and negative impacts to our international product sales from movements in foreign currency exchange rates are partially mitigated by the natural, opposite impact that foreign currency exchange rates have on our international operating expenses.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's, or SEC, rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial and accounting officer), as appropriate, to allow for timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures were designed to provide reasonable assurance that the controls and procedures would meet their objectives.

As required by Exchange Act Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial and accounting officer), of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this quarterly report on Form 10-Q. Based on the foregoing, our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial and accounting officer) concluded that our disclosure controls and procedures were effective as of March 31, 2014.

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to affect materially, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We operate in a highly regulated industry. We are subject to the regulatory authority of the SEC, the FDA and numerous other federal and state governmental agencies including state attorney general offices, which have become more active in investigating the business practices of pharmaceutical companies.

Glenridge Litigation

In June 2011, Glenridge Pharmaceuticals LLC, or Glenridge, filed a lawsuit against us in the Superior Court of California, Santa Clara County, alleging that we had underpaid royalties to Glenridge, in connection with the timing of the impact of various offsets in the calculation of net sales. In August 2012, we filed a separate lawsuit against the three principals of Glenridge, as well as Glenridge, challenging the enforceability of our agreement with Glenridge. Our lawsuit alleges that Kenneth Greathouse breached his fiduciary duties to the Company and that his partners at Glenridge aided and abetted his breach. In August 2013, the two lawsuits were consolidated into one case in the Superior Court of California, Santa Clara County. We filed a motion for summary adjudication seeking to declare our agreement with Glenridge unenforceable. The Court denied it on March 6, 2014, finding that triable issues of fact existed as to whether the Glenridge agreement was enforceable. Glenridge subsequently filed its own motion for summary judgment that seeks to dismiss Questcor's affirmative claims on the grounds that they are time-barred. Glenridge's motion will be heard on June 3, 2014.

USAO Investigation

On September 21, 2012, we became aware of an investigation by the USAO for the Eastern District of Pennsylvania regarding our promotional practices. Following our September 24, 2012 announcement of this investigation, we received a subpoena from the USAO for information relating to our promotional practices. We have been informed by the USAO for the Eastern District of Pennsylvania that the USAO for the Southern District of New York and the SEC are also participating in the investigation to review our promotional practices and related matters. We continue to cooperate with the USAO and the SEC with regard to this investigation.

Putative Class Action Securities Litigation

On September 26, 2012, a putative class action lawsuit was filed against us and certain of our officers and directors in the United States District Court for the Central District of California, captioned *John K. Norton v. Questcor Pharmaceuticals, et al.*, No. SACv12-1623 DMG (FMOx). The complaint purports to be brought on behalf of shareholders who purchased our common stock between April 26, 2011 and September 21, 2012. The complaint generally alleges that we and certain of our officers and directors engaged in various acts to artificially inflate the price of our stock and enable insiders to profit through stock sales. The complaint generally asserts that we and certain of our officers and directors violated sections 10(b) and/or 20(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, by making allegedly false and/or misleading statements concerning the clinical evidence to support the use of Acthar for indications other than infantile spasms, the promotion of the sale and use of Acthar in the treatment of MS and nephrotic syndrome, reimbursement for Acthar from third-party insurers, and our outlook and potential market growth for Acthar. The complaint seeks damages in an unspecified amount and equitable relief against the defendants. This lawsuit has been consolidated with four subsequently-filed actions asserting similar claims under the caption: *In re Questcor Securities Litigation*, No. CV 12-01623 DMG (FMOx). On October 1, 2013, the District Court granted in part and denied in part our motion to dismiss the consolidated amended complaint. On October 29, 2013, we filed an answer to the consolidated amended complaint.

Federal Shareholder Derivative Litigation

On October 4, 2012, another alleged shareholder filed a derivative lawsuit in the United States District Court for the Central District of California captioned *Gerald Easton v. Don M. Bailey, et al.*, No. SACV12-01716 DOC (JPRx). The suit asserts claims substantially identical to those asserted in the *do Valle* derivative action described below against the same defendants. This lawsuit has been consolidated with five subsequently-filed actions asserting similar claims under the caption: *In re Questcor Shareholder Derivative Litigation*, CV 12-01716 DMG (FMOx). Following the resolution of the motion to dismiss in the consolidated putative securities class action, the court issued an order staying the federal derivative action until the earlier of: (a) sixty (60) days after the resolution of any motion for summary judgment filed in the putative class action lawsuit, (b) sixty (60) days after the deadline to file a motion for summary judgment in the putative class action lawsuit, if none is filed, or (c) the execution of any settlement agreement (including any partial settlement agreement) to resolve the putative class action lawsuit.

State Shareholder Derivative Litigation

On October 2, 2012, an alleged shareholder filed a derivative lawsuit purportedly on behalf of the Company against certain of our officers and directors in the Superior Court of the State of California, Orange County, captioned *Monika do Valle v. Virgil D. Thompson, et al.*, No. 30-2012-00602258-CU-SL-CXC. The complaint asserts claims for breach of fiduciary duty, abuse of control, mismanagement and waste of corporate assets arising from substantially similar allegations as those contained in the putative securities class action described above, as well as from allegations relating to sales of our common stock by the defendants and repurchases of our common stock. The complaint seeks an unspecified sum of damages and equitable relief. On October 24, 2012, another alleged shareholder filed a derivative lawsuit purportedly on behalf of the Company against certain of our officers and directors in the Superior Court of the State of California, Orange County, captioned *Jones v. Bailey, et al.*, Case No. 30-2012-00608001-CU-MC-CXC. The suit asserts claims substantially identical to those asserted in the *do Valle* derivative action. On February 19, 2013, the court issued an order staying the state derivative actions until the putative federal securities class action and federal derivative actions are resolved.

Put Options Securities Action

In March 2013, individual traders of put options filed a securities complaint in the United States District Court for the Central District of California captioned *David Taban, et al. v. Questcor Pharmaceuticals, Inc.*, No. SACV13-0425. The complaint generally asserts claims against us and certain of our officers and directors for violations of the Exchange Act and for state law fraud and fraudulent concealment based on allegations similar to those asserted in the putative securities class action described above. The complaint seeks compensatory damages in an amount equal to $5 million and punitive damages of an unspecified amount. Following the resolution of the motion to dismiss in the consolidated putative securities class action, the court issued an order staying this action until the earlier of: (a) sixty (60) days after the resolution of any motion for summary judgment filed in the putative class action lawsuit, (b) sixty (60) days after the deadline to file a motion for summary judgment in the putative class action lawsuit, if none is filed, or (c) the execution of any settlement agreement (including any partial settlement agreement) to resolve the putative class action lawsuit.

Retrophin Litigation

In January 2014, Retrophin Inc. filed a lawsuit against us in the United States District Court for the Central District of California, alleging a variety of federal and state antitrust violations based on our acquisition from Novartis of certain rights to develop, market, manufacture, distribute, sell and commercialize Synacthen. We filed a motion to dismiss the complaint in March 2014. A hearing on the motion is currently scheduled on May 30, 2014.

Putative Class Action Securities Litigation Related to the Merger Since the announcement of the merger agreement on April 7, 2014, Questcor, Mallinckrodt, Merger Sub, and Questcor's board of directors have been named as defendants in seven putative class and derivative actions on behalf of an alleged class of Questcor stockholders in the Superior Court of California, County of Orange. The complaints allege, inter alia, that the proposed merger between Questcor and Mallinckrodt involves an unfair price, an inadequate sales process, self-dealing, and unreasonable deal protection devices.

We believe that the probability of unfavorable outcome or loss related to these matters and an estimate of the amount or range of loss, if any, from an unfavorable outcome are not determinable at this time. We believe we have meritorious legal positions and will continue to represent our interests vigorously in these matters. However, responding to government investigations, defending any claims raised, and any resulting fines, restitution, damages and penalties, settlement payments or administrative actions, as well as any related actions brought by shareholders or other third parties, could have a material impact on our reputation, business and financial condition and divert the attention of our management from operating our business.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the SEC on February 26, 2014, as our business, financial condition and results of operations could be adversely affected by any of the risks and uncertainties described therein. Other than as provided below, there have been no material changes in our risk factors from those disclosed in the report listed above.

Risk Factors Relating to the Merger

The Stock Consideration and the Cash Consideration will not be adjusted in the event of any change in the stock prices of either Mallinckrodt or Questcor.

Upon the consummation of the Merger, each share of our common stock, no par value, issued and outstanding immediately prior to the Merger (other than dissenting shares, shares of restricted common stock granted to individuals other than non-employee directors, and common stock owned by Questcor, Mallinckrodt, Merger Sub or any of their respective subsidiaries) will be converted into the right to receive a combination of (1) $30.00 per share of Company common stock in cash, without interest, plus (2) 0.897 validly issued, fully paid and nonassessable Mallinckrodt ordinary shares. The Stock Consideration of 0.897 and Cash Consideration will not be adjusted for changes in the market prices of either shares of Mallinckrodt ordinary shares or shares of our common stock. Changes in the market price of shares of Mallinckrodt ordinary shares prior to the Merger will affect the market value of the Merger Consideration that our shareholders will receive on the closing date of the Merger. Stock price changes may result from a variety of factors (many of which are beyond the control of Mallinckrodt and Questcor), including the following factors:

- market reaction to the announcement of the Merger;
- changes in the respective businesses, operations, assets, liabilities and prospects of Mallinckrodt and Questcor;
- changes in market assessments of the business, operations, financial position and prospects of either company or the combined company following consummation of the Merger;
- market assessments of the likelihood that the Merger will be completed;
- interest rates, general market and economic conditions and other factors generally affecting the market prices of Mallinckrodt ordinary shares and our common stock;
- federal, state and local legislation, governmental regulation and legal developments in the businesses in which Mallinckrodt and Questcor operate; and
- other factors beyond the control of Mallinckrodt and Questcor, including those described or referred to elsewhere in this “Risk Factors” section.

The market price of Mallinckrodt ordinary shares at the closing of the Merger may vary from the price of such shares on the date the Merger Agreement was executed, on the date of this Quarterly Report on Form 10-Q and on the date of the special meetings of Mallinckrodt and Questcor. As a result, the market value of the Merger Consideration represented by the Stock Consideration will also vary.

Because the Merger will be completed after the date of our special meeting, at the time of the special meeting, our shareholders will not know the exact market value of the shares of Mallinckrodt ordinary shares that they will receive upon completion of the Merger. You should consider the following two risks:

- If the market price of Mallinckrodt ordinary shares increases between the date the Merger Agreement was signed or the date of the Mallinckrodt and Questcor special meetings and the closing of the Merger, our shareholders will receive Mallinckrodt ordinary shares that have a market value upon completion of the Merger that is greater than the market value of such shares calculated pursuant to the Stock Consideration on the date the Merger Agreement was signed or on the date of the special meetings, respectively.
- If the market price of Mallinckrodt ordinary shares declines between the date the Merger Agreement was signed or the date of the Mallinckrodt and Questcor special meetings and the closing of the Merger, our shareholders will receive Mallinckrodt ordinary shares that have a market value upon completion of the Merger that is less than the market value of such shares calculated pursuant to the Stock Consideration on the date the Merger Agreement was signed or on the date of the special meetings, respectively.

Therefore, while the number of Mallinckrodt ordinary shares to be issued per share of our common stock is fixed, our shareholders cannot be sure of the market value of the Merger Consideration they will receive upon completion of the Merger.

Mallinckrodt and Questcor shareholders will be diluted by the Merger.

The Merger will dilute the ownership position of Mallinckrodt shareholders and result in our shareholders having an ownership stake in the combined company that is smaller than their current stake in Questcor. Upon completion of the Merger, Mallinckrodt shareholders will own approximately 50.5% and former Questcor shareholders will own approximately 49.5% of the combined company’s stock. Consequently, our shareholders, as a general matter, will have less influence over the

management and policies of the combined company after the effective time of the Merger than they currently exercise over the management and policies of Questcor.

Failure to complete the Merger could negatively impact the stock prices and the future business and financial results of Questcor.

If the Merger is not completed, the ongoing business of Questcor could be adversely affected and Questcor will be subject to a variety of risks associated with the failure to complete the Merger, including the following:

- Questcor being required to pay to Mallinckrodt a termination fee of approximately $194.5 million under certain circumstances specified in the Merger Agreement or approximately $55.6 million if the Merger Agreement is terminated as a result of the Questcor shareholders not approving the Merger;
- Questcor having to pay certain costs relating to the proposed Merger, such as legal, accounting, financial advisor, filing, printing and mailing fees; and
- diversion of Questcor management's focus and resources from operational matters and other strategic opportunities while working to implement the Merger.

If the Merger is not completed, these risks could materially affect the business, financial results and stock prices of Questcor.

The pendency of the Merger could adversely affect the business and operations of Questcor.

Prior to the effective time of the Merger, some customers of Questcor may delay or defer decisions, which could negatively affect the revenues, earnings, cash flows and expenses of Questcor, regardless of whether the Merger is completed. Similarly, current and prospective employees of Questcor may experience uncertainty about their future roles with the combined company following the Merger, which may materially adversely affect the ability of Questcor to attract and retain key personnel during the pendency of the Merger. In addition, due to operating restrictions in the Merger Agreement, Questcor may be unable, during the pendency of the Merger, to pursue strategic transactions, undertake significant capital projects, undertake certain significant financing transactions and otherwise pursue other actions, even if such actions would prove beneficial.

The Merger Agreement contains provisions that could discourage a potential competing acquirer of Questcor or could result in a competing acquisition proposal being at a lower price than it might otherwise be.

The Merger Agreement contains provisions, subject to limited exceptions necessary to comply with the duties of our Board of Directors, that, among other things, restrict the ability of Questcor to solicit, initiate or knowingly encourage or knowingly facilitate (including by way of furnishing information), or engage in discussions or negotiations regarding, any inquiry, proposal or offer, or the making, submission or announcement of any inquiry, proposal or offer (including any inquiry, proposal or offer to its shareholders) which constitutes or would be reasonably expected to lead to a proposal to acquire beneficial ownership of at least twenty percent (20%) of the assets of, equity interest in, or businesses of Questcor. Prior to receiving Questcor shareholder approval of the Merger, Questcor may engage in discussions or negotiations with a third party after receiving an unsolicited written proposal if our Board of Directors determines in good faith after consultation with our outside legal and financial advisors that the unsolicited proposal would result in a more favorable proposal to the Questcor shareholders from a financial point of view than the Merger, taking into account all relevant factors (such proposal, a "superior proposal"). Once a third party proposal is received, Questcor must notify Mallinckrodt within 24 hours following receipt of the proposal and keep Mallinckrodt informed of the status and terms of the proposal. In response to such a proposal, Questcor may, under certain circumstances, withdraw or modify its recommendation to Questcor shareholders with respect to the Merger, if our Board of Directors has determined in good faith after consultation with our outside legal counsel that (i) the competing proposal is a superior proposal and (ii) failure to take such action would constitute a breach of the duties of the members of the Board of Directors under applicable laws. In such a case, Questcor would be required to pay to Mallinckrodt a termination fee of approximately $194.5 million

These provisions could discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of Questcor from considering or proposing such an acquisition, even if the potential competing acquirer was prepared to pay consideration with a higher per share value than the value proposed to be received or realized in the Merger, or might result in a potential competing acquirer proposing to pay a lower per share value than it might otherwise have proposed to pay because of the added expense of the termination fee that may become payable in certain circumstances under the Merger Agreement.

Completion of the Merger is subject to various conditions, including the approval of the shareholders of Questcor and Mallinckrodt and the expiration or termination of the waiting period imposed by the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

Completion of the Merger remains subject to the approval of the shareholders of Questcor and Mallinckrodt and the expiration or termination of the waiting period imposed by the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and satisfaction or waiver of the other closing conditions specified in the Merger Agreement. Each party's obligation to consummate the Merger is also subject to the absence of a material adverse effect on the other party, the accuracy of the representations and warranties of the other party (subject to certain qualifications and exceptions) and the performance in all material respects of the other party's covenants under the Merger Agreement, including customary covenants regarding operation of the business of each party prior to closing. As a result of these conditions, we cannot assure you that the Merger will be completed.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

Exhibit No	Description
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.
32.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.
101 .INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Furnished herewith.

SIGNATURES

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

QUESTCOR PHARMACEUTICALS, INC.

Date: April 29, 2014 By: /s/ Don M. Bailey

Don M. Bailey
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Rajesh Asarpota

Rajesh Asarpota
Senior Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit Index

Exhibit No	Description
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
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* Furnished herewith.

Exhibit 31.1

CERTIFICATION

I, Don M. Bailey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Questcor Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 29, 2014

/s/ Don M. Bailey

Don M. Bailey
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Rajesh Asarpota, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Questcor Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 29, 2014

/s/ Rajesh Asarpota

Rajesh Asarpota
Senior Vice President, Chief Financial Officer
(Principal Accounting Officer)

Exhibit 32.1

CERTIFICATION

I, Don M. Bailey, hereby certify pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, that the Quarterly Report of Questcor Pharmaceuticals, Inc. on Form 10-Q for the quarterly period ended March 31, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q for the period ended March 31, 2014 fairly presents in all material respects the financial condition and results of operations of Questcor Pharmaceuticals, Inc.

April 29, 2014 /s/ Don M. Bailey

Don M. Bailey
President and Chief Executive Officer
(Principal Executive Officer)

This certification accompanies the Quarterly Report on Form 10-Q pursuant to Rule 13a-14(b) or Rule 15d-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 and shall not be deemed filed by Questcor Pharmaceuticals, Inc. for purposes of Section 18 of the Securities Exchange Act of 1934.

Exhibit 32.2

CERTIFICATION

I, Rajesh Asarpota, hereby certify pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, that the Quarterly Report of Questcor Pharmaceuticals, Inc. on Form 10-Q for the quarterly period ended March 31, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q for the period ended March 31, 2014 fairly presents in all material respects the financial condition and results of operations of Questcor Pharmaceuticals, Inc.

April 29, 2014 /s/ Rajesh Asarpota

Rajesh Asarpota
Senior Vice President, Chief Financial Officer
(Principal Accounting Officer)

This certification accompanies the Quarterly Report on Form 10-Q pursuant to Rule 13a-14(b) or Rule 15d-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 and shall not be deemed filed by Questcor Pharmaceuticals, Inc. for purposes of Section 18 of the Securities Exchange Act of 1934.