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

Form 10-K

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

For the Fiscal Year ended December 31, 2012

Or

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

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 Identification No.)**
1300 North Kellogg Drive, Suite D Anaheim, California	**92807**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code:
(714) 786-4200

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, no par value	Nasdaq Stock Market, LLC (Nasdaq Global Select Market)

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No x

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 period 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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K**.** x

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):

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

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

The aggregate market value of the voting and non-voting Common Stock held by non-affiliates of the Registrant was approximately $2,005,319,312 as of June 30, 2012.

As of January 31, 2013 the Registrant had 58,548,234 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report incorporates by reference information from the definitive Proxy Statement for Questcor Pharmaceuticals, Inc.'s 2013 Annual Meeting of Shareholders.

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QUESTCOR PHARMACEUTICALS, INC.

PART I

References in this Annual Report on Form 10-K to “Questcor”, “we”, “our”, “us”, or the “Company” refer to Questcor Pharmaceuticals, Inc. This Annual Report on Form 10-K contains forward-looking statements based on expectations, estimates and projections as of the date of this filing. Actual results may differ materially from those expressed in forward-looking statements. See Item 7 of Part II—“Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

We obtained the market data and industry information contained in this Annual Report on Form 10-K from internal surveys, estimates, reports and studies, as appropriate, as well as from market research, publicly available information and industry publications. Although we believe our internal surveys, estimates, reports, studies and market research, as well as industry publications are reliable, we have not independently verified such information, and as such, we do not make any representation as to their accuracy.

We have registered trademarks on H.P. Acthar® Gel and Doral®. Any other trademark, trade name or service mark appearing in this document belongs to its respective holder. We believe that our trademarks, trade names and service marks have value and play an important role in our business efforts. We own all the worldwide rights for H.P. Acthar® Gel and the U.S. manufacturing, marketing and distribution rights for Doral®.

Item 1. Business

Overview

Questcor is a biopharmaceutical company focused on the treatment of patients with serious, difficult-to-treat autoimmune and inflammatory disorders. 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 generate 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-K, 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.

- 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 support this vulnerable patient population. We believe that a significant percentage of the $262 million in free drug we have provided through the National Organization of Rare Disorders, from September 2007 through December 31, 2012, has been used to treat IS. We support the IS community through other initiatives. In February 2012, we were awarded the first-ever Corporate Citizenship Award presented by the Child Neurology Foundation. This award honors our long-term commitment to support the child neurology community as well as our specific efforts to fund education and research related to IS.

- 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."

Our research and development program is focused on: (i) the 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 manage contract research organizations to conduct our in-house discovery programs, which include the following:

- On-Label Development. We continue to explore additional markets for other on-label indications. Our on-label, in-house clinical development efforts include the following:
  - Nephrotic Syndrome (NS). We are the sponsor of a Phase 4 clinical trial evaluating Acthar for the treatment of proteinuria associated with treatment-resistant idiopathic membranous nephropathy (IMN), which commenced patient dosing in the fourth quarter of 2011.
  - Systemic Lupus Erythematosus (SLE). We are conducting Phase 4 clinical trials evaluating Acthar for the treatment of SLE and randomized our first patient in January 2013.
- Other Indications, Not On-Label. We are exploring the possibility of pursuing FDA approval for indications not currently on the Acthar label involving other serious, difficult-to-treat autoimmune and inflammatory disorders with high unmet medical need. Our in-house research and development efforts with respect to the use of Acthar to treat conditions that are not on the label of approved indications for Acthar include the following:
  - Diabetic Nephropathy (DN). We reached agreement with the FDA with respect to our investigational new drug application, or IND, for a small Company-sponsored study to evaluate the safety and efficacy of Acthar in treating DN.
  - Amyotrophic Lateral Sclerosis (ALS). We are evaluating the potential clinical benefit that Acthar may provide for the treatment of ALS (commonly referred to as Lou Gehrig's disease). We expect to file an IND and initiate a proof-of-concept trial of Acthar in ALS in the first half of 2013.
- Pharmacology. We are conducting in-house non-clinical and clinical pharmacology studies:
  - We seek to expand our understanding of 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.

We supplement our own research and development activities through third-party collaborations, including investigator initiated studies, which include the following:

- On-Label Development. On-label, third-party clinical development efforts include the following:
  - Nephrotic Syndrome (NS). We are supporting clinical nephrology investigator-initiated studies evaluating: (i) the safety and efficacy of Acthar in IMN; (ii) the safety and efficacy of Acthar in proteinuria in nephrotic syndrome due to focal segmental glomerular sclerosis (FSGS); and (iii) the safety and efficacy of Acthar in treating proteinuria in treatment-resistant nephrotic syndrome (including IMN, FSGS, IgA nephropathy and minimal change disease).
  - Infantile Spasms (IS). We are supporting an investigator-initiated study aimed at establishing quality of care indicators for IS.

- Other Indications, Not On-Label. We are supporting third-party research and development efforts with respect to the use of Acthar to treat conditions that are not on the label of approved indications for Acthar which include the following:
    - Multiple Sclerosis - Pulse Therapy. We are supporting a clinical investigator-initiated study, examining pulse administration of Acthar in multiple sclerosis in conjunction with disease-modifying therapy to evaluate the possible disease modifying effects of Acthar.
    - Cognitive Protection/Autism. We are supporting a preclinical investigator-initiated study, to determine whether Acthar has protective effects in an animal model of epilepsy with concomitant autism-related cognitive dysfunction.
    - Traumatic Brain Injury (TBI): We are supporting a preclinical investigator-initiated study, to determine whether Acthar has protective effects in an animal model of TBI.
- Pharmacology. We are supporting third-party non-clinical and clinical pharmacology studies:
    - Multiple Sclerosis. We are supporting an investigator-initiated study, evaluating the immune modulating effects of Acthar applied to serum from multiple sclerosis patients and an investigator-initiated study evaluating neuroprotective properties of adrenocorticotropic hormone that are relevant to multiple sclerosis.

In the event that our research & development activities yield promising results with respect to indications not currently on the approved Acthar label, we may continue investing further and may consider pursuing potential FDA approval for such indications.

We derive net sales of Acthar from our sales of vials to CuraScript Specialty Distributor, or CuraScript SD, which in turn sells Acthar primarily to specialty pharmacies. These specialty pharmacies place orders with CuraScript SD 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, MS exacerbations, IS, rheumatology related conditions and various other conditions. Physicians do not purchase Acthar for resale to patients. Instead, patients purchase Acthar directly from specialty pharmacies after receiving a prescription and, typically, after arranging for third party reimbursement (government or commercial insurance) - most often after satisfying a prior authorization requirement imposed by their insurance carrier. Alternatively, if a patient is uninsured or under-insured, they may receive Acthar under a Questcor sponsored patient assistance program, administered by the National Organization of Rare Disorders. See Item 1A *"Risk Factors:* Risks Associated with Acthar" for a discussion of risks related to sales and marketing.

Our other product is Doral® (quazepam), which is indicated for the treatment of insomnia characterized by difficulty in falling asleep, frequent nocturnal awakenings, and/or early morning awakenings. We own the U.S. rights to and have immaterial sales of Doral.

Our total net sales were $509.3 million for the year ended December 31, 2012 as compared to $218.2 million and $115.1 million for the years ended December 31, 2011 and 2010, respectively. Approximately 100% of our net sales in each of these years were from Acthar. Our net income was $197.7 million for the year ended December 31, 2012 as compared to $79.6 million and $35.1 million for the years ended December 31, 2011 and 2010, respectively.

Sales and Marketing

We have increased the size of our Neurology Sales Force, which primarily calls on neurologists who treat patients for MS relapse, several times since the beginning of 2008. Most recently, we increased the size of our Neurology Sales Force from 77 to 109 representatives in August 2012. Additionally, in March 2011, we assembled an initial Nephrology Sales Force of five representatives to educate nephrologists regarding improved outcomes in patients suffering from NS who are treated with Acthar. Based on the prescribing activity of Acthar by nephrologists from these initial efforts, we increased the size of our Nephrology Sales Force to 28 representatives during the third quarter of 2011, and increased it again to 58 representatives in July 2012.

During July 2012, we also commenced a pilot detailing effort with 12 representatives detailing Acthar to rheumatologists. These representatives initially focused on the rare and closely-related neuromuscular disorders dermatomyositis and polymyositis (DM/PM). Based on positive physician prescribing from our effort, late in the third quarter of 2012, we began the process of expanding this Rheumatology Sales Force to approximately 50 Acthar specialists. The expansion of our Rheumatology Sales Force was completed during February 2013.

See Item 1A "*Risk Factors:* Risks Associated with Acthar" for a discussion of risks related to sales and marketing.

Customers and Distribution

In the U.S., our exclusive customer for Acthar is CuraScript SD. We sell Acthar at a discount from our list price to CuraScript SD, which then resells Acthar primarily to approximately 12 specialty pharmacy companies, including CuraScript Specialty Pharmacy, or CuraScript SP, and to children's hospitals. We sell Doral to pharmaceutical wholesalers, which resell Doral primarily to retail pharmacies and hospitals.

We have engaged Integrated Commercialization Services, Inc., or ICS, to act as our exclusive agent for commercial shipment of our products to our customers. In addition to distribution services, ICS provides us with related services, including product storage, returns, customer support, and administrative support.

After Acthar and Doral are manufactured, they are shipped to ICS where the drugs are warehoused. Upon receiving orders from CuraScript SD, ICS ships Acthar to CuraScript SD. Upon receiving orders from national distributors, ICS ships Doral to those customers.

We recognize revenue when we have persuasive evidence that an arrangement, agreement or contract exists, when title for our product and risk of loss have passed to our customer, the price we charge for our product is fixed or is readily determinable, and we are reasonably assured of collecting the amounts owed under the resulting receivable. For Acthar, this occurs when CuraScript SD accepts a shipment of Acthar based on its order of Acthar from ICS. We do not require collateral from our customers for sales of either of our products.

Government Insurance Program Reimbursement

A portion of our end-user vial demand for Acthar is for patients covered under Medicaid and other government-related programs such as TRICARE and the Veterans Administration, or VA. As required by Federal regulations, we provide rebates and discounts in connection with these programs. As a result of Medicaid rebates in fiscal years ended December 31, 2012, 2011 and 2010, we did not generate any net sales with respect to Medicaid sales, but we did generate net sales with respect to Medicare sales, TRICARE sales and sales made to the VA. As a result of the enactment of the Patient Protection and Affordable Care Act of 2010 and the Healthcare and Education Affordability Reconciliation Act of 2010, signed into law on March 23, 2010 and March 30, 2010, respectively, or the Healthcare Reform Acts, the per vial rebate amount for Medicaid decreased from approximately 110% to 100% of the Average Manufacturer Price, or AMP, of Acthar. Additionally, Medicaid managed care programs became eligible for drug rebates. This expanded eligibility affected our rebate liability for those state entities which had Medicaid managed care programs. During the first quarter of 2013, the Medicaid rebate amount for Acthar was reset from 100% of the AMP of Acthar to the basic rebate of 23.1% of AMP.

We estimate that approximately 30% of our sales for both MS and NS are patients for whom Medicare is their primary insurance. For Medicare, starting January 1, 2011, we pay a rebate under the Healthcare Reform Acts relating to the Medicare Part D Coverage Gap, or "Donut Hole." However, for 2012, the rebate associated with the Donut Hole was immaterial.

See Item 1A "*Risk Factors:* Risks Associated with Government Regulations and Health Care Reform" for a discussion of risks related to reimbursement.

Competition

The pharmaceutical and biotechnology industries are intensely competitive and subject to rapid and significant technological change. A number of companies are pursuing the development of pharmaceuticals and products that target the same diseases and conditions for which Acthar is currently approved to treat or which we may seek to add to the label of approved indications for Acthar. There are products and treatments currently on the market that compete with Acthar. Additionally, there are products and treatments in other parts of the world that could be introduced into the United States following FDA approval.

Most of our competitors are larger than we are and have substantially greater financial, marketing and technical resources than we have. Other smaller companies may also prove to be significant competitors, particularly through collaborative

arrangements with large and established companies. If any of our present or future competitors develop new products that are superior to Acthar, our financial performance may be materially and adversely affected.

With the increase in our net sales, we likely will attract additional competition. See Item 1A *"Risk Factors:* Risks Associated with Acthar" for a discussion of additional risks related to competition.

Manufacturing

Acthar is derived from the extraction and purification of porcine pituitary glands through complicated processes, and is difficult to manufacture. Acthar bulk concentrate, the active pharmaceutical ingredient, or API, used in Acthar, is processed in several stages to produce a highly purified raw material for formulation. BioVectra, Inc., or BioVectra, produces our API. In January 2013, we acquired 100% of the capital stock of BioVectra in order to internalize this aspect of the manufacturing process for Acthar. We have a supply agreement with Cangene bioPharma, Inc., or Cangene, to manufacture commercial quantities of Acthar finished product. Cangene is our sole source supplier for Acthar finished product. While we have received approval from the FDA for the transfers to new contract manufacturers for both Acthar finished product and API, the processes used to manufacture and test Acthar are complex and subject to FDA inspection and approval. Acthar has a shelf life of 18 months from the date of manufacture.

We have a supply agreement with Meda Pharmaceuticals, or Meda, to manufacture commercial quantities of Doral. Currently, Meda is our sole source supplier for Doral. Doral has a shelf life of 60 months from the date of manufacture.

Our internal manufacturing facilities for API or our finished goods contract manufacturers may not be able to continue to meet our requirements for quality, quantity and timeliness. Our internal manufacturing facilities or contract manufacturers may not be able to meet all of the FDA's current good manufacturing practice, or cGMP, requirements.

Our dependence upon others for the manufacture of our finished products may adversely affect the future profit margin on the sale of those products and our ability to develop and deliver products on a timely and competitive basis. We do not have substitute suppliers for our products although we strive to plan appropriately and maintain safety stocks of product to cover unforeseen events at manufacturing sites.

See Item 1A *"Risk Factors:* Risks Associated with Acthar" for a discussion of additional risks related to manufacturing.

Research and Development

During the years ended December 31, 2012, 2011 and 2010, we spent $34.3 million, $16.8 million and $10.9 million, respectively, on research and development activities.

We plan to continue our research and development efforts to support the use of Acthar as a therapeutic alternative for various medical conditions. See "Business - Overview." We anticipate that these research and development efforts will result in a significant increase in research and development expense in 2013 and future years.

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 patients or 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, affect FDA approval of the indication in the label, and/or affect our sales of Acthar for existing commercialized indications. 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 higher or lower levels of 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, we are unable to reliably estimate the amount or range of the cost and timing to complete our product development programs and each future product development program.

See Item 1A *"Risk Factors:* Risks Associated with Acthar" for a discussion of additional risks related to research and development.

Patents and Proprietary Rights

The FDA first approved the use of Acthar in 1952, and Acthar is no longer subject to patent protection.

For Acthar, our success depends partially upon our ability to maintain confidentiality and operate without infringing upon the proprietary rights of third parties. We rely primarily on a combination of copyright, trademark and trade secret laws, confidentiality procedures, and contractual provisions to protect our intellectual property. We also have a U.S. patent related to Doral.

Our efforts to protect our intellectual property may not be adequate. Our competitors may independently develop similar technology or duplicate our products or services. Unauthorized parties may infringe upon or misappropriate our products, services or proprietary information. In addition, the laws of some foreign countries do not protect proprietary rights as well as the laws of the United States. In the future, litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could be time consuming, costly and face an uncertain outcome.

We could be subject to intellectual property infringement claims as we expand our position in our currently targeted therapeutic areas and enter new therapeutic areas. Defending against these claims, even if the claims are without merit, could be expensive and may divert our attention from our operations. If we become liable to third parties for infringing upon their intellectual property rights, we could be required to pay substantial damage awards and be forced to develop non-infringing technology, obtain a license or cease using the applications that contain the infringing technology or content. We may be unable to develop non-infringing technology or content or obtain a license on commercially reasonable terms, or at all.

See Item 1A “*Risk Factors:* Risks Associated with Acthar” for a discussion of additional risks related to patents and proprietary rights.

Government Regulation of Acthar and Doral

Our pharmaceutical products are subject to extensive government regulation in the United States. FDA regulations govern the research, development, testing, manufacture, quality control, labeling, storage, record-keeping, approval, sale, distribution, advertising and promotion of our products.

The FDA testing and approval process for new indications for previously approved drugs requires substantial time, effort and money. Any application we submit to the FDA may not be timely approved, if at all.

The FDA may withdraw product approval for non-compliance with regulatory requirements or if safety or efficacy problems occur after the product reaches the market. The FDA also has the power to require changes in labeling or to prevent further marketing of a product based on the results of post-marketing programs.

The facilities, procedures, and operations of our internal manufacturing facilities and contract manufacturers must be determined to be adequate by the FDA before a new drug application (NDA) or supplemental new drug application (sNDA) is approved. Additionally, manufacturing facilities are subject to inspections by the FDA for compliance with cGMP, licensing specifications, and other FDA regulations on an on-going basis. Vendors that supply to us finished products or components used to manufacture, package and label products are subject to similar regulations and periodic inspections.

Following such inspections, the FDA may issue notices on Form 483 and issue Warning Letters that could cause us to modify certain activities identified during the inspection. The FDA generally issues a Form 483 notice at the conclusion of an FDA inspection and lists conditions the FDA investigators believe may violate cGMP or other FDA regulations. FDA guidelines specify that a Warning Letter be issued only for violations of “regulatory significance” for which the failure to adequately and promptly achieve correction may be expected to result in an enforcement action.

In addition, the FDA imposes a number of complex regulatory requirements on entities that advertise and promote pharmaceuticals, including but not limited to, standards and regulations for direct-to-physician promotion, direct-to-consumer advertising, payments to physicians, off-label promotion, industry-sponsored scientific and educational activities and promotional activities involving the internet.

The Company's sales and marketing activities are monitored by our compliance team, which is headed by our Vice President, Compliance and Chief Compliance Officer who is exclusively dedicated to our compliance function. Our Chief Compliance Officer reports to our Chief Executive Officer and the Compliance Committee of our Board of Directors. Our Chief Compliance Officer is also supported by our General Counsel and other internal and external personnel.

Failure to comply with FDA and governmental regulations can result in fines, unanticipated compliance expenditures, recall or seizure of products and promotional materials, total or partial suspension of production and/or distribution, suspension

of the FDA's review of NDAs or sNDAs, injunctions, disqualification from participation in government reimbursement programs and criminal prosecution. Any of these actions or events could have a material adverse effect on us both financially and reputationally.

In addition to regulation by the FDA, the Drug Enforcement Agency, or DEA, imposes various registration, recordkeeping and reporting requirements, procurement and manufacturing quotas, labeling and packaging requirements, security controls and a restriction on prescription refills on certain pharmaceutical products under the Controlled Substances Act. States also impose similar requirements for handling controlled substances. A principal factor in determining the particular requirements, if any, applicable to a product is the actual or potential abuse profile. The active pharmaceutical ingredient for Doral is quazepam, a benzodiazepine, which is regulated by the DEA as a Schedule IV controlled substance. Controlled substances are subject to DEA and state regulations relating to manufacturing, storage, distribution and physician prescription procedures, and the DEA regulates the amount of the scheduled substance that would be available for clinical trials and commercial distribution.

See Item 1A *"Risk Factors:* Risks Associated with Government Regulation and Health Care Reform" for a discussion of additional risks related to government regulation.

Human Resources

As of January 31, 2013, we had 557 full-time employees, 289 of whom are engaged in sales and commercialization activities.

Our continued success will depend in large part on our ability to attract and retain key employees. We believe that our relationship with our employees is good. None of our employees is represented by a collective bargaining agreement, nor have we experienced work stoppages.

General Information

We incorporated in California in September 1992 as Cypros Pharmaceutical Corporation. In November 1999, we changed our name to Questcor Pharmaceuticals, Inc. We are located at 1300 North Kellogg Drive, Suite D, Anaheim, California 92807, and our telephone number is (714) 786-4200.

We make the following reports available on our website, at *www.questcor.com*, free of charge as soon as practicable after filing with the U.S. Securities and Exchange Commission, or SEC:

- Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, our proxy statements on Schedule 14A, and amendments to these reports and statements;
- Our policies related to corporate governance, including our Code of Ethics and Conduct which apply to our directors, officers and employees (including our principal executive officer and principal financial and accounting officer) that we have adopted to meet the requirements set forth in the rules and regulations of the SEC and its corporate governance principles; and
- The charters of the Audit, Compensation, Nomination & Corporate Governance and Compliance Committees of our Board of Directors.

All such reports are also available free of charge via EDGAR through the SEC website *www.sec.gov*. In addition, the public may read and copy material filed by us with the SEC at the SEC's public reference room located at 100 F St., NE, Washington, D.C., 20549. Information regarding operation of the SEC's public reference room can be obtained by calling the SEC at 1-800-SEC-0330. The contents of our website are not incorporated by reference into this Annual Report.

Item 1A. Risk Factors

Risks Associated with Acthar

Substantially all of our net sales and profits are derived from Acthar.

For the year ended December 31, 2012, sales of Acthar for the following on-label indications: (i) the treatment of acute exacerbations of multiple sclerosis, or MS, in adults, (ii) the treatment of proteinuria in the nephrotic syndrome of the idiopathic type, or NS, (iii) the treatment of infantile spasms, or IS, in infants and children under two years of age, and (iv) the treatment of certain rheumatology related conditions, including the treatment of the rare and closely related neuromuscular

disorders dermatomyositis and polymyositis (DM/PM), represented approximately 100% of our total net sales. We expect to continue to rely on sales of Acthar for these conditions for substantially all of our net sales and profits for the foreseeable future.

Relative to other more recently approved pharmaceutical products, there is limited clinical evidence on the efficacy of Acthar for its on-label indications which could impact the sales of Acthar. The completion of ongoing or future clinical trials to provide further evidence on the efficacy of Acthar in the treatment of its approved indications could take several years to complete and will require the expenditure of significant time, financial and management resources and we cannot assure you that a clinical trial will result in data that supports the use of Acthar to treat any of its approved indications. We also cannot assure you that a clinical trial to evaluate the use of Acthar to treat indications not on the current Acthar label will provide a basis to pursue adding such indications to the current Acthar label. Our efforts to approve new indications to add to the current Acthar label would require one or more additional clinical studies and the preparation and submission of a sNDA with the FDA, and we cannot assure you that any submission would ultimately be approved by the FDA.

The demand for Acthar to treat NS, MS exacerbations, IS and rheumatology related conditions is highly variable, and we cannot predict whether we will continue to generate significant net sales from sales of Acthar. Recommended treatment regimens among physicians prescribing Acthar for use in treating MS exacerbations, NS, IS and rheumatology related conditions vary within each therapeutic area. If physicians prescribe a lower number of vials for the treatment of MS exacerbations, NS, IS, or rheumatology related conditions, our net sales of Acthar would decline. Additionally, we are aware that some prescriptions are initially for a lower number of vials than is necessary to complete the physician's recommended treatment regimen, and allow for one or more prescription refills. If patients do not obtain their refill prescriptions in order to complete their recommended treatment regimens, our net sales from the sale of Acthar would be negatively impacted. There can be no assurance that we would be able to increase prescription levels by enough to offset any decline in vials per prescription.

If the sales of or demand for Acthar declines, if third-party payors refuse to provide reimbursement for purchases of Acthar, if a greater proportion of our Acthar unit sales is comprised of product dispensed to Medicaid eligible patients or if vials sourced through various patient assistance programs increases as a percent of total shipments, our net sales of Acthar would be negatively impacted. If the cost to produce Acthar increases, our gross margins on the sale of Acthar would decline. If our net sales or gross margins from the sale of Acthar decline, our ability to generate profits would be harmed.

We utilize CuraScript SD, a third-party specialty distributor, to distribute Acthar. We rely on CuraScript SD for all of our proceeds from sales of Acthar in the United States. The outsourcing of our distribution function is complex, and we may experience difficulties that could reduce, delay or stop shipments of Acthar. If we encounter such distribution problems, and we are unable to quickly enter into a similar agreement with another specialty distributor on substantially similar terms, Acthar distribution could become disrupted, resulting in lost revenues, provider dissatisfaction, and/or patient dissatisfaction.

We may be negatively affected by lower reimbursement levels.

Our ability to generate net sales is affected by the availability of third-party reimbursement for Acthar, and our ability to generate net sales will be diminished if we fail to maintain an adequate level of reimbursement for Acthar from such third-party payors.

Acthar is a high priced drug and the sale of Acthar depends in part on the availability of reimbursement from third-party payors such as private insurance plans. In the United States, there have been, and we expect there will continue to be, a number of state and federal proposals that limit the amount that private insurance plans may pay to reimburse the cost of drugs, including Acthar. We believe the increasing emphasis on managed care in the United States has and will continue to put pressure on the price and usage of Acthar. In addition, current third-party reimbursement policies for Acthar may change at any time and such changes could include, among other things, required pre-authorizations, lower reimbursement or the loss of insurance coverage. For example, in 2012 several insurance companies issued updated clinical policy bulletins with updated reimbursement guidelines for Acthar. There can be no assurance that these changes or other changes in the future will not affect the reimbursement for Acthar. Negative changes in reimbursement or our failure to obtain reimbursement for Acthar may reduce the demand for, or the price of, Acthar, which could result in lower Acthar net sales, thereby weakening our competitive position and negatively impacting our results of operations.

The manufacture of Acthar is a highly exacting and complex process and, if our internal manufacturing operations or any of our suppliers encounter problems manufacturing products, our business could suffer.

Acthar is derived from the extraction and purification of porcine pituitary glands through complicated processes, and, as a result, Acthar is difficult to manufacture. Biological products such as Acthar require production processes that are significantly

more complicated than those required for chemical pharmaceuticals, due in part to strict regulatory requirements. 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. In addition, we currently use single suppliers for certain aspects of the manufacturing process of Acthar.

If problems arise during the production of a batch of product, that batch of product may have to be discarded. Among other impacts to our business, lost batches could lead to increased costs, lost revenue, damage to our reputation, changes in physician practices with respect to the use of Acthar, time and expense spent investigating the cause of such problems and, depending on the cause, similar losses with respect to other batches of Acthar. If we do not discover problems before Acthar is released to the market, we also may incur recall and product liability costs. To the extent that our internal manufacturing facilities or one of our suppliers experiences significant manufacturing problems, these could have a material adverse effect on our revenues and profitability.

On January 18, 2013, we acquired all of the outstanding shares of BioVectra, which among other things produces the API for Acthar. As a result of the acquisition of BioVectra, we currently use our own internal facilities to manufacture the API for Acthar. Our ability to adequately and timely manufacture and supply Acthar is dependent on the uninterrupted and efficient operation of our facilities, which may be impacted by many events. Furthermore, our ability to retain key BioVectra management and successfully integrate BioVectra could impact our ability to manufacture or sell Acthar. In the event of a material disruption in the manufacturing capability of BioVectra for any reason, if we were unable to enter into a supply agreement with a third party manufacturer, or are unable to obtain FDA approval for a third party manufacturer we may not be able to manufacture or sell Acthar, which would result in a substantial loss of revenues and damage to our business.

We have a supply agreement with Cangene to produce our finished vials of Acthar. Our supply agreement with Cangene is in effect until terminated by either party upon 12 months' notice. If Cangene terminates the agreement, Cangene is obligated under the agreement to continue to provide manufacturing services for up to three years after the termination. If either party cancels the supply agreement, and we are unable to enter into a new supply agreement on substantially similar terms with a new manufacturer, or are unable to obtain FDA approval for a new manufacturer, we may not be able to manufacture or sell Acthar, which would result in a substantial loss of revenues and damage to our business.

Failure by our internal manufacturing facilities or our third-party suppliers or manufacturers to comply with regulatory requirements could adversely affect our ability to manufacture API in Acthar or our third-party suppliers' ability to supply finished vials of Acthar. All facilities and manufacturing techniques used for the manufacture of pharmaceutical products must be operated in conformity with the FDA's cGMP, requirements. In complying with cGMP requirements, we, and our suppliers, must continually expend time, money and effort in production, record-keeping and quality assurance and control to ensure that our products and product candidates meet applicable specifications and other requirements for product safety, efficacy and quality. Manufacturing facilities are subject to periodic unannounced inspection by the FDA and other regulatory authorities, including state authorities. Failure to comply with applicable legal requirements subjects our internal manufacturing facilities or our third-party suppliers to possible legal or regulatory action, including shutdown, which may adversely affect our ability to manufacture the API in Acthar or our third party suppliers' ability to supply us with the finished products we need.

Any delay in supplying, or failure to supply, Acthar by our manufacturing facilities or any of our suppliers could result in our inability to meet the commercial demand for Acthar or our needs for use in clinical trials, and could adversely affect our business, financial condition, results of operations and growth prospects.

We have no patent protection for Acthar, and potential competitive products to Acthar may reduce or eliminate our commercial opportunity.

The patent for Acthar has expired and we have no intellectual property-based market exclusivity with respect to any indication or condition we might target.

The pharmaceutical and biotechnology industries are intensely competitive and subject to rapid and significant technological change, and a number of companies are pursuing the development of products that target the same diseases and conditions that we target. Some of the companies developing products have significantly greater financial resources and expertise in development, manufacturing, obtaining regulatory approvals and marketing than we do. Other smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. In the event we are successful in further developing our MS and nephrotic syndrome markets or in developing other markets for Acthar, our increasing the overall sales volume of Acthar may lead other companies to dedicate greater resources to attempt to develop and introduce generic or biosimilar versions of Acthar and other competitive therapies for the same diseases and conditions that we target. We cannot predict with accuracy the timing or impact of the introduction of potentially competitive products or their possible effect on our net sales. If a competitor applied to the FDA for a generic or biosimilar

version of Acthar or any competitive product not based on ACTH (adrenocorticotropic hormone), we would not receive any notice from the FDA about the existence of the application. Further, the announcement of a filing with the FDA relating to a potentially competitive product could have an adverse effect on our business and share price, regardless of the ultimate outcome of such filing.

In addition, under a 2012 United States Court of Appeals for the Second Circuit ruling, the federal government cannot prosecute pharmaceutical companies under the Food, Drug & Cosmetic Act for speech promoting the lawful, off-label use of an FDA approved product. This may result in increased competition from the off-label use of FDA approved products for the same diseases and conditions that we target with Acthar.

Our attempts to further develop other on-label therapeutic uses for Acthar may be unsuccessful.

In connection with the FDA's October 2010 approval of our sNDA to add the treatment of IS to the label of approved indications for Acthar, the overall label for Acthar was modernized and there are now 19 approved indications, including the treatment of IS, the treatment of acute exacerbations of MS, the use of Acthar 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, and the treatment of certain rheumatology-related conditions including the rare and closely related neuromuscular disorders DM/PM. Commercializing Acthar to treat other on-label indications will be time consuming, expensive and unpredictable. We may not be able to, either by ourselves or in collaboration with others, successfully commercialize Acthar for the treatment of new, on-label therapeutic uses.

Should we decide to collaborate with third parties in the commercialization of new, on-label therapeutic uses for Acthar, such collaboration may require us to commit substantial effort and expense in seeking out, evaluating and negotiating collaboration agreements, which expense may be incurred without achieving our desired results and which effort involves inherent risks, including uncertainties due to matters that may affect the successful commercialization of such uses, as well as the possibility of contractual disagreements with regard to terms such as proprietary rights, license scope or termination rights. It may be necessary for us to enter into arrangements with other pharmaceutical companies in order to effectively market any new, on-label therapeutic uses for Acthar. We may not be successful in entering into such arrangements on terms favorable to us or at all.

Once developed, a number of factors may negatively affect the market acceptance of additional therapeutic uses for Acthar, including, among others:

- the price of Acthar relative to other therapies for the same or similar treatments;
- limited published data of the efficacy of Acthar for such additional therapeutic uses;
- the perception by patients, physicians and other members of the health care community of the safety and efficacy of Acthar for their prescribed treatments;
- the availability of third-party reimbursement for Acthar; and
- the effectiveness of our sales and marketing efforts.

We depend primarily on third parties to assist us in our research and development.

We have limited ability to conduct our own clinical trial and research and development projects and we generally rely upon third-party vendors to plan, conduct and report on clinical trials for uses of Acthar. Managing these third-party vendors requires significant time and resources. In the event that any of our third-party vendors has unforeseen issues that negatively impact the quality of its work, our ability to evaluate clinical results may also be negatively impacted. A clinical trial failure could adversely affect our ability to develop data to support the use of Acthar in the treatment of on-label indications or file for or gain regulatory approvals for new indications on a timely basis. In addition, any one of these vendors could determine that its own research and development requirements or those of other parties take precedence over the research and development they provide to us. We could experience a development gap if one or more of our clinical trial vendors does not properly execute a clinical trial or chose to prioritize other projects over our development projects. This prioritization could cause a gap in our research and development timelines until we achieve further advancement of our own capabilities. Any gap could impact our ability to develop and commercialize other therapeutic uses for Acthar.

We will not be able to add to the label of approved indications for Acthar if pre-clinical trials do not produce successful results or if clinical trials do not demonstrate safety and efficacy in humans.

The regulatory process, which may include extensive pre-clinical trials and clinical trials of Acthar to establish its safety and efficacy in a new therapeutic area, can lead to uncertain outcomes, can span many years, and requires the expenditure of substantial time and resources to ensure compliance with complex regulations. Should we fail to comply with applicable regulations, possible regulatory actions could include warning letters, fines, damages, injunctions, civil penalties, recalls, seizures of our products and criminal prosecution. These actions could result in, among other things, substantial modifications to our business practices and operations; refunds, recalls or a total or partial shutdown of production in one or more of our suppliers' facilities while our suppliers remedy the alleged violation; the inability to obtain future pre-market clearances or approvals; and withdrawals or suspensions of Acthar from the market. Any of these events could disrupt our business and have a material adverse effect on our revenues and financial condition.

In addition, data obtained from pre-clinical and clinical activities are susceptible to varying interpretations that could delay, limit or prevent regulatory approval or clearance. Also, we may encounter delays or rejections based upon changes in regulatory policy during the development period and the period of review of any application for regulatory approval or clearance for Acthar.

Our success in adding to the label for approved indications for Acthar will depend on the success of the pre-clinical and clinical trials conducted by us and our clinical trial vendors. It can take several years to complete the pre-clinical and clinical trials of a new therapeutic use, and a failure of one or more of these pre-clinical or clinical trials can occur at any stage of testing. We believe that the development of new therapeutic uses for Acthar involves significant risks at each stage of testing. If pre-clinical or clinical trial difficulties and failures arise, new therapeutic uses for Acthar may never be approved for sale or become commercially viable.

In addition, the possibility exists that:

- the results from early pre-clinical or clinical trials may not be statistically significant or predictive of results that will be obtained from expanded, advanced clinical trials;
- there may be delay or failure in reaching agreement on acceptable terms with prospective contract research organizations, or CROs, and clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- we may experience delay or failure in recruiting and enrolling suitable patients to participate in a trial;
- clinical sites and investigators may deviate from trial protocol or fail to conduct the trial in accordance with regulatory requirements, or drop out of a trial;
- feedback from FDA, the Institutional Review Board, or data safety monitoring boards, or results from earlier stage or concurrent pre-clinical and clinical studies, may require modification to the study protocol;
- a proposed new use for Acthar may not exhibit the expected therapeutic results in humans, may cause harmful side effects or have other unexpected characteristics that may delay or preclude regulatory approval or limit commercial use even if approved;
- we, institutional review boards, or regulators, including the FDA, may hold, suspend or terminate our pre-clinical or clinical research or the pre-clinical or clinical trials of Acthar for various reasons, including noncompliance with regulatory requirements or if, in their opinion, the participating subjects are being exposed to unacceptable health risks;
- the cost of our pre-clinical or clinical trials may be greater than we currently anticipate; and
- the difficulties and risks associated with pre-clinical and clinical trials may result in the failure to receive regulatory approval to continue to test or to sell Acthar in new therapeutic uses or the inability to commercialize Acthar for any of these therapeutic uses.

The time required to obtain approval by the FDA is unpredictable but typically takes many years following the commencement of preclinical studies and clinical trials and depends upon numerous factors, including the substantial discretion of the regulatory authorities. In addition, approval policies, regulations, or the type and amount of clinical data necessary to gain approval may change during the course of a product's clinical development and may vary among jurisdictions. It is possible that the Acthar will never obtain regulatory approval for new therapeutic uses.

There are many reasons why we may fail to receive regulatory approval from the FDA, including:

- failure to demonstrate to FDA's satisfaction that Acthar is safe and effective for its proposed indications;
- failure of clinical trials to meet the level of statistical significance required for approval;
- failure to demonstrate that clinical and other benefits outweigh its safety risks;
- disagreement with our interpretation of data from preclinical studies or clinical trials;
- the data collected from clinical trials may be insufficient to support the submission and filing of an New Drug Application, or NDA, or supplement or to obtain regulatory approval; and
- changes in the approval policies or regulations that render our preclinical and clinical data insufficient for approval.

The FDA may require more information, including additional preclinical or clinical data to support approval of Acthar for new therapeutic uses, which may delay or prevent approval and our commercialization plans, or we may decide to abandon the development program. If we were to obtain approval, regulatory authorities may approve Acthar for fewer or more limited indications than we request, may grant approval contingent on the performance of costly post-marketing clinical trials, or may approve a product candidate with a label that does not include the labeling claims necessary or desirable for the successful commercialization of that product candidate. In addition, if the FDA determines that there are undesirable side effects or safety issues, the FDA may require the establishment of Risk Evaluation Mitigation Strategies, or REMS, that may, for instance, restrict distribution and impose burdensome implementation requirements on us. Any of the foregoing scenarios could materially harm the commercial prospects for Acthar in new therapeutic areas.

If we are unable to obtain approval to add new indications for Acthar, or if we are unable to support the commercialization of other currently labeled indications with additional data, our sales and marketing efforts and market acceptance and the commercial potential of Acthar may be negatively affected.

Risks Associated with Government Regulation and Health Care Reform

We are involved in an ongoing government investigation by the United States Department of Justice involving our promotional practices, the results of which may have a material adverse effect on our sales, financial condition and results of operations.

In September 2012, we received a subpoena from the United States Attorney's Office for the Eastern District of Pennsylvania (the "USAO"), requesting documents pertaining to an investigation of our promotional practices. We are cooperating with the USAO with regard to this investigation. If some of our existing business practices are challenged as unlawful, we may have to change those practices, which could have a material adverse effect on our business, financial condition and results of operations. If, as a result of this investigation, we are found to have violated one or more applicable laws, we could be subject to a variety of fines, penalties, and related administrative sanctions, and our business, financial condition and results of operations could be materially adversely affected. Responding to this investigation has been and is expected to continue to be expensive and time-consuming.

We are subject to significant ongoing regulatory obligations and oversight, which may result in significant additional expense and limit our ability to commercialize our products.

We are subject to significant ongoing regulatory obligations, such as safety reporting requirements and additional post-marketing obligations, including regulatory oversight of the promotion and marketing of our products. In addition, the manufacture, quality control, labeling, packaging, safety surveillance, adverse event reporting, storage, advertising, promotion and recordkeeping for our products are subject to extensive and ongoing regulatory requirements. If we become aware of previously unknown problems with any of our products, a regulatory agency may impose restrictions on our products, our contract manufacturers or on us. If we, our products and product candidates, or the manufacturing facilities for our products and product candidates fail to comply with applicable regulatory requirements, a regulatory agency, including the FDA, may send enforcement letters, mandate labeling changes, suspend or withdraw regulatory approval, suspend any ongoing clinical trials, refuse to approve pending applications or supplements filed by us, suspend or impose restrictions on manufacturing operations, request a recall of, seize or detain a product, seek criminal prosecution or an injunction, or impose civil or criminal

penalties or monetary fines. In such instances, we could experience a significant drop in the sales of the affected products, our product revenues and reputation in the marketplace may suffer, and we could become the target of lawsuits.

The FDA and other governmental authorities also actively enforce regulations prohibiting off-label promotion, and the government has levied large civil and criminal fines against companies for alleged improper promotion. The government has also required companies to enter into complex corporate integrity agreements and/or non-prosecution or deferred prosecution agreements that impose significant reporting and other burdens on the affected companies.

We are also subject to regulation by regional, national, state and local agencies, including but not limited to the FDA, Centers for Medicare and Medicaid Services, Department of Justice, the Federal Trade Commission, the Office of Inspector General of the U.S. Department of Health and Human Services and other regulatory bodies. The Federal Food, Drug, and Cosmetic Act, Social Security Act, Public Health Service Act and other federal and state statutes and regulations govern to varying degrees the research, development, manufacturing and commercial activities relating to prescription pharmaceutical products, including preclinical testing, clinical research, approval, production, labeling, sale, distribution, post-market surveillance, advertising, dissemination of information, promotion, marketing, and pricing to government purchasers and government health care programs. Our manufacturing partners are subject to many of the same requirements.

The federal health care program anti-kickback statute prohibits, among other things, knowingly and willfully offering, paying, soliciting, or receiving remuneration to induce or in return for purchasing, leasing, ordering or arranging for the purchase, lease or order of any health care item or service reimbursable under Medicare, Medicaid or other federally financed healthcare programs. This statute has been interpreted to apply to arrangements that pharmaceutical companies have with prescribers, purchasers and formulary managers. Further, the Healthcare Reform Acts, among other things, amends the intent requirement of the federal anti-kickback statute. A person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it. In addition, the Healthcare Reform Acts provides that the government may assert that a claim including items or services resulting from a violation of the federal anti-kickback statute constitutes a false or fraudulent claim for purposes of the false claims statutes. Although there are a number of statutory exemptions and regulatory safe harbors under the federal anti-kickback statute protecting certain common manufacturer business arrangements and activities from prosecution, the exemptions and safe harbors are drawn narrowly and an arrangement must meet all of the conditions specified in order to be fully protected from scrutiny under the federal anti-kickback statute. We seek to comply with the exemptions and safe harbors whenever possible, but our practices may not in all cases meet all of the criteria for safe harbor protection from anti-kickback liability and may be subject to scrutiny. Violations of the federal anti-kickback statute can result in civil and criminal fines and penalties and related administrative sanctions, including exclusion from federal health care programs.

The Federal False Claims Act prohibits any person from knowingly presenting, or causing to be presented, a false claim for payment to the federal government, or knowingly making, or causing to be made, a false statement to get a false claim paid. Many pharmaceutical and other health care companies have been investigated and have reached substantial financial settlements with the federal government under the Federal False Claims Act for a variety of alleged marketing activities, including providing free product to customers with the expectation that the customers would bill federal programs for the product; providing consulting fees, grants, free travel, and other benefits to physicians to induce them to prescribe the company's products; and inflating prices reported to private price publication services, which may be used by states to set drug payment rates under government health care programs. Companies have been prosecuted for causing false claims to be submitted because of the marketing of their products for unapproved uses. Pharmaceutical and other health care companies have also been prosecuted on other legal theories of Medicare and Medicaid fraud.

Many states also have statutes or regulations similar to the federal anti-kickback law and false claims laws, which apply to items and services reimbursed under Medicaid and other state programs, or, in several states, which apply regardless of the payor. Several states now require pharmaceutical companies to report their expenses relating to the marketing and promotion of pharmaceutical products in those states and to report gifts and payments to certain individual health care providers in those states. Some of these states also prohibit certain marketing related activities, including the provision of gifts, meals, and other items to certain health care providers. In addition, California, Connecticut, Nevada, and Massachusetts require pharmaceutical companies to implement compliance programs or marketing codes.

Compliance with various federal and state laws is difficult and time consuming, and companies that violate them may face substantial penalties. The potential sanctions include civil monetary penalties, exclusion from participation in federal health care programs, criminal fines and imprisonment. Because of the breadth of these laws and the lack of extensive legal guidance in the form of regulations or court decisions, it is possible that some of our business activities could be subject to challenge under one or more of these laws. Such a challenge, irrespective of the underlying merits of the challenge or the ultimate outcome of the matter, could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

In addition to the pending investigation by the Department of Justice, we could become subject to further government investigations and related subpoenas. Such subpoenas are often associated with previously filed qui tam actions, or lawsuits filed under seal under the Federal False Claims Act. Qui tam actions are brought by private plaintiffs suing on behalf of the federal government for alleged violations of the Federal False Claims Act. The time and expense associated with responding to such subpoenas, and any related qui tam or other actions, may be extensive, and we cannot predict the results of our review of the responsive documents and underlying facts or the results of such actions. 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 stockholders 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.

The number and complexity of both federal and state laws continues to increase, and additional governmental resources are being added to enforce these laws and to prosecute companies and individuals who are believed to be violating them. In particular, the Healthcare Reform Acts includes a number of provisions aimed at strengthening the government's ability to pursue anti-kickback and false claims cases against pharmaceutical manufacturers and other healthcare entities, including substantially increased funding for healthcare fraud enforcement activities, enhanced investigative powers, amendments to the False Claims Act that make it easier for the government and whistleblowers to pursue cases for alleged kickback and false claim violations and, beginning in March 2014 for payments made on or after August 1, 2013, public reporting of payments by pharmaceutical manufacturers to physicians and teaching hospitals nationwide. While it is too early to predict what effect these changes will have on our business, we anticipate that government scrutiny of pharmaceutical sales and marketing practices will continue for the foreseeable future and subject us to the risk of further government investigations and enforcement actions. Responding to a government investigation or enforcement action would be expensive and time-consuming, and could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

If we or any of our partners fail to comply with applicable regulatory requirements, we or they could be subject to a range of regulatory actions that could affect our or our partners' ability to commercialize our products and could harm or prevent sales of the affected products, or could substantially increase the costs and expenses of commercializing and marketing our products. Any threatened or actual government enforcement action could also generate adverse publicity and require that we devote substantial resources that could otherwise be used in other aspects of our business.

Changes in the health care regulatory environment may adversely affect our business.

The Healthcare Reform Acts substantially change the way health care is financed by both governmental and private insurers, and could have a material adverse effect on our future business, cash flows, financial condition and results of operations, including by operation of the following provisions:

- Effective March 23, 2010, drug rebates are due on the utilization of Medicaid managed care organizations. This expanded eligibility affected our rebate liability for that utilization.

- Effective January 1, 2011, pharmaceutical companies, including Questcor, must provide a 50% discount on branded prescription drugs dispensed to beneficiaries within the Medicare Part D coverage gap or “donut hole,” which is a funding gap that currently exists in the Medicare Part D prescription drug program. We estimate that approximately 30% of our sales for both MS and NS are to Medicare insureds.

- Effective January 1, 2011, the U.S. Federal government must allocate an annual branded prescription drug fee among pharmaceutical manufacturers of branded prescription drugs based on the dollar value of their branded prescription drug sales to certain federal health care programs identified in the law. The Healthcare Reform Acts determine an individual manufacturer's market share as the ratio of its aggregate sales of branded prescription drugs during the preceding calendar year as a percentage of the aggregate branded prescription drug sales for all covered manufacturers. We believe the amount due in 2012 for the annual fee is immaterial.

- Changes made by the Healthcare Reform Acts are expected to result in the coverage of 32 million uninsured individuals through an expansion of the Medicaid program, and private sector coverage either through their employer or the new state-based Health Insurance Exchanges effective in 2014. In 2012, the Supreme Court of the United States heard challenges to the constitutionality of the individual mandate and the viability of certain provisions of the Healthcare Reform Acts. The Supreme Court's decision upheld most of the Healthcare Reform Acts and determined that requiring individuals to maintain “minimum essential” health insurance coverage or pay a penalty to the Internal Revenue Service was within Congress's constitutional taxing authority. However, the Supreme Court struck down a provision in the Healthcare Reform Act that penalized states that chose not to expand their Medicaid programs through an increase in the Medicaid

eligibility income limit from a state's current eligibility levels to 133% of the federal poverty limit. As a result of the Supreme Court's ruling, it is unclear whether states will expand their Medicaid programs by raising the income limit to 133% of the federal poverty level and whether there will be more uninsured patients in 2014 than anticipated when Congress passed the Healthcare Reform Acts. For each state that does not choose to expand its Medicaid program, there will be fewer insured patients overall, which could impact our sales, business and financial condition. We expect any Medicaid expansion to impact the number of adults in Medicaid more than children because many states have already set their eligibility criteria for children at or above the level designated in the Healthcare Reform Acts. An increase in the proportion of patients who receive Acthar and who are covered by Medicaid could adversely affect our net sales.

- On February 8, 2013, Centers for Medicare and Medicaid Services, or CMS, issued a final rule to implement Section 6002 of the Healthcare Reform Acts, which requires pharmaceutical and medical device companies to compile and disclose payments and other transfers of value to physicians and other covered recipients. Failure to comply with the disclosure requirements could result in substantial fines and penalties.

Presently, uncertainty exists as many of the specific determinations necessary to implement the Healthcare Reform Acts have yet to be decided and communicated to industry participants. Further, many of the Healthcare Reform Acts' most significant reforms do not take effect until 2014 and thereafter, and their details will be shaped significantly by implementing regulations that have yet to be proposed. We have made several estimates with regard to important assumptions relevant to determining the financial impact of the Healthcare Reform Acts on our business due to the lack of availability of both certain information and complete understanding of how the process of applying the Healthcare Reform Acts will be implemented.

In addition, Congress and the President may make additional refinements to the Healthcare Reform Acts that may have an additional, potential negative impact on our overall financial position, results of operations and cash flows. At this time, we cannot predict the full impact of the Healthcare Reform Acts, or the timing and impact of any future rules or regulations promulgated to implement the Healthcare Reform Acts.

Beginning April 1, 2013, Medicare payments for all items and services, including drugs and biologicals, will be reduced by up to 2% under the sequestration (i.e., automatic spending reductions) required by the Budget Control Act of 2011, Pub. L. No. 112-25 (“BCA”), as amended by the American Taxpayer Relief Act of 2012, Pub. L. 112-240 (“ATRA”). The BCA requires sequestration for most federal programs, excluding Medicaid, Social Security, and certain other programs, because Congress failed to enact legislation by January 15, 2012, to reduce federal deficits by $1.2 trillion over ten years. The BCA caps the cuts to Medicare payments or items and services at 2%, and requires the cuts to be implemented on the first day of the first month following the issuance of a sequestration order. The ATRA delayed implementation of sequestration from January 2, 2013, to March 1, 2013, and as a result, the Medicare cuts will take effect April 1, 2013, unless Congress enacts legislation to cancel or delay the cuts. If implemented, these cuts could adversely impact our products and payments for related procedures.

Medicaid eligible patients and government entities may account for a greater proportion of our Acthar unit sales resulting in reduced net sales.

Our net sales may be adversely affected by laws and regulations that reduce reimbursement rates. Administrative or judicial interpretations of such laws and regulations could impact reimbursement for our products or increase the amount of rebates paid to certain government entities. The sources and amounts of our revenues are determined by a number of factors, including payor reimbursement for our products. Changes in the payor mix among private pay, Medicaid, and government programs usage may significantly affect our profitability.

A portion of the estimated end-user vial demand for Acthar is for patients covered under Medicaid and other government-related programs. As required by Federal regulations, under the Medicaid Drug Rebate Program we provide rebates related to Acthar dispensed to Medicaid patients. The Healthcare Reform Acts made changes to the Medicaid Drug Rebate Program, including increasing the minimum amount of rebate from 15.1% to 23.1% of the average manufacturer price for most innovator products such as Acthar. In addition, federal law requires that any company that participates in the Medicaid rebate program also participate in the Public Health Service's 340B drug pricing discount program in order for federal funds to be available for the manufacturer's drugs under Medicaid and Medicare Part B. The 340B pricing program requires participating manufacturers to agree to charge statutorily-defined covered entities no more than the 340B “ceiling price” for the manufacturer's covered outpatient drugs. Under the 340B program, covered entities are permitted to purchase Acthar at the 340B ceiling price. The 340B ceiling price is calculated using a statutory formula, which is based on the average manufacturer price and rebate amount for the covered outpatient drug as calculated under the Medicaid rebate program. Changes to the definition of average manufacturer price and the Medicaid rebate amount under the Healthcare Reform Acts and CMS's issuance of final regulations implementing those changes also could affect our 340B ceiling price calculations and negatively impact our results or operations. As a result of the enactment of the Healthcare Reform Acts and fiscal pressures placed upon federal and state

governments to reduce current budget deficits, it is possible that a greater proportion of Acthar sales could be subject to these rebates and chargebacks, reducing our net sales. Additionally, changes to Medicaid, Medicare or other regulations, or the application of such regulations to our products, resulting in higher rebates and chargebacks, could reduce our net sales further.

In order to be eligible to have our products paid for with federal funds under the Medicaid and Medicare Part B programs and purchased by certain federal agencies, we participate in the Department of Veterans Affairs (VA) Federal Supply Schedule (FSS) pricing program, established by Section 603 of the Veteran's Health Care Act of 1992. Under this program, we are obligated to make our product available for procurement on an FSS contract and charge a price to four federal agencies - VA, Department of Defense, Public Health Service, and Coast Guard - that is no higher than the statutory Federal Ceiling Price (FCP). The FCP is based on the non-federal average manufacturer price (Non-FAMP), which we calculate and report to the VA on a quarterly and annual basis. We also participate in the Tricare Retail Pharmacy program, established by Section 703 of the National Defense Authorization Act for Fiscal Year 2008 and related regulations, under which we pay quarterly rebates on utilization of innovator products that are dispensed through the Tricare Retail Pharmacy network to Tricare beneficiaries. The rebates are calculated as the difference between Annual Non-FAMP and FCP.

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 CuraScript SP (which is owned by CuraScript SD) 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.

We may be negatively affected by unforeseen invoicing of historical Medicaid sales.

We provide a rebate related to Acthar dispensed to Medicaid eligible patients in instances where regulations provide for such a rebate. We multiply the rebate amount per unit by the estimated rebate units to arrive at the reserve for the period. This reserve is deducted from gross sales in the determination of net sales. Other than for Medicaid rebates associated with Medicaid Managed Care Organization, or Medicaid MCO, utilization, the Medicaid rebates associated with end user demand for a period are mostly paid to the states by the end of the quarter following the quarter in which the rebate reserve is established. As a result, at the end of each quarter we must estimate the amount of Medicaid sales in that quarter and such estimates could prove to be inaccurate. Revisions in the Medicaid rebate estimates are charged to income in the period in which the information that gives rise to the revision becomes known. However, certain states may provide their requested rebates to us on a delayed basis, which to the extent not previously reserved for would negatively affect future financial performance in periods occurring after the period in which the original reserved Medicaid rebate accrual occurred. In connection with the enactment of the Healthcare Reform Acts and the expansion of the Medicaid Drug Rebate Program to include the utilization of Medicaid MCOs, we increased our reserves for Medicaid rebates. Our reserves for Medicaid MCO related rebates may not be adequate.

In addition to receiving requested rebates on a delayed basis, pharmaceutical and biologic companies may be subject to investigation by various governmental agencies concerning Medicaid rebates. Governmental agencies and their agents, such as the Medicare Administrative Contractors, fiscal intermediaries and carriers, as well as the Office of the Inspector General, the Federal Bureau of Investigations, CMS, and state Medicaid programs, may conduct audits of our operations. The cost of responding to and resolving these audits could have a material, adverse effect on our financial position, results of operations and liquidity. Although we have processes and controls in place, should we be found out of compliance with any of these laws, regulations or programs, our business, our financial position and our results of operations could be negatively impacted.

Other Risks Associated with our Business

Our business and operations have experienced rapid growth. If we fail to effectively manage our growth, our business and operating results could be harmed.

We have experienced rapid growth, both from organic growth and our recent acquisition of BioVectra, in our headcount and operations that has placed, and will continue to place, significant demands on our management and, operational and

financial infrastructure. To effectively manage this growth, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. These systems enhancements and improvements will require significant capital expenditures and management resources. Failure to implement these improvements could hurt our ability to manage our growth and our financial position.

The loss of our key management personnel or failure to integrate new management personnel could have an adverse impact on future operations.

We are highly dependent on the services of the principal members of our senior management team, and the loss of one or more members of senior management could create significant disruption in our ability to operate our business. We do not carry key person life insurance for our senior management or other personnel. Additionally, the future potential growth and expansion of our business is expected to place increased demands on our management skills and resources. Recruiting and retaining management and operational personnel to perform sales and marketing, financial operations, clinical development, regulatory affairs, compliance, quality assurance, medical affairs and contract manufacturing in the future will also be critical to our success. We do not know if we will be able to attract and retain skilled and experienced management and operational personnel in the future on acceptable terms given the intense competition among numerous pharmaceutical and biotechnology companies for such personnel. If we are unable to hire necessary skilled personnel in the future, our business could be harmed.

If we fail to realize the anticipated benefits from our acquisition of BioVectra our business and financial condition may be adversely affected.

We may fail to realize the anticipated benefits from our acquisition of BioVectra for a variety of reasons, including the following:

- the difficulties of overseeing manufacturing operations in a foreign country where we have no or limited direct prior experience;
- failure to successfully manage relationships with suppliers and customers;
- difficulties in integrating and harmonizing business systems;
- the loss of key employees; and
- failure to properly protect against foreign currency exchange rate fluctuations.

If we are not able to successfully manage these issues, the anticipated benefits and efficiencies of the BioVectra acquisition may not be realized fully or at all, or may take longer to realize than expected, and our revenue and gross margins and our results of operations may be adversely affected.

Our financial results can be negatively impacted by economic downturns.

Downturns in the general economic environment present us with several potential challenges. In challenging economies and periods of increased unemployment, a greater percentage of our unit volume may be subject to reimbursement under Medicaid and other government programs. This shift in payor mix can negatively impact our financial results because of the resulting decrease in our net sales. In addition, third-party payors such as private insurance companies may be less willing to satisfy their reimbursement obligations in a timely manner, or at all.

As a result of downturns in the economy, there may be a disruption or delay in the performance of our third-party contractors, suppliers or collaborators, including CuraScript SD. If CuraScript SD is unable to satisfy its commitments to us, our business would be adversely affected because of our reliance upon CuraScript SD for our sales and distribution. There may be a disruption or delay in the performance of our third-party manufacturers for Acthar. If such third-party manufacturers are unable to satisfy their commitments to us, our business would be adversely affected because of the resulting supply disruption.

Downturns in the capital markets may have a negative impact on the market values of the investments in our investment portfolio. We cannot predict future market conditions or market liquidity and the markets for these securities may deteriorate or the institutions that hold these investments may not be able to meet their debt obligations at the time we may need to liquidate such investments or until such time as the investments mature.

If we are unable to protect our proprietary rights, we may lose our competitive position and future revenues.

We do not have a patent on Acthar. However, our success will depend in part on our ability to do the following:

- protect our trade secrets;
- operate without infringing upon the proprietary rights of others; and
- prevent others from infringing on our proprietary rights.

We will only be able to protect our proprietary rights from unauthorized use by third parties to the extent that these rights are covered by valid and enforceable patents or are effectively maintained as trade secrets and are otherwise protectable under applicable law.

We rely on trade secrets and proprietary know-how for Acthar. We currently seek protection, in part, through confidentiality and proprietary information agreements. These agreements may not provide meaningful protection or adequate remedies for proprietary technology in the event of unauthorized use or disclosure of confidential and proprietary information. The parties may not comply with or may breach these agreements. Furthermore, our trade secrets may otherwise become known to, or be independently developed by, competitors.

Our success will further depend, in part, on our ability to operate without infringing the proprietary rights of others. If our activities infringe on patents owned by others, we could incur substantial costs in defending ourselves in suits brought against a licensor or us. In addition, such litigation or the threat of litigation could create substantial distractions for our management, which would decrease our ability to focus on increasing sales of Acthar. Should Acthar or its associated technologies be found to infringe on patents issued to third parties, the manufacture, use and sale of Acthar could be enjoined, and we could be required to pay substantial damages. In addition, we, in connection with the development and use of Acthar and its associated technologies, may be required to obtain licenses to patents or other proprietary rights of third parties, which may not be made available on terms acceptable to us.

If product liability lawsuits are successfully brought against us or we become subject to other forms of litigation, we may incur substantial liabilities and costs and may be required to limit commercialization of Acthar.

The development, manufacture, testing, marketing and sale of pharmaceutical products entail significant risk of product liability claims or recalls. Side effects of, or manufacturing defects in, the products sold by us could result in exacerbation of a patient's condition, serious injury or impairments or even death. This could result in product liability claims and/or recalls of one or more of our products. Both Acthar and Doral have boxed warnings in their labels.

Product liability claims may be brought by individuals seeking relief for themselves, or by groups seeking to represent a class. While we have not had to defend against any product liability claims to date, as sales of our products increase, we believe it is likely product liability claims will be made against us. We cannot predict the frequency, outcome or cost to defend any such claims. Under a 2009 United States Supreme Court ruling, FDA approval of a drug does not prevent the filing of product liability claims in state courts, potentially making it more costly and time consuming to defend against such claims.

Product liability insurance coverage is expensive, can be difficult to obtain and may not be available in the future on acceptable terms, if at all. We currently have product liability insurance for claims up to $10 million. Partly as a result of product liability lawsuits related to pharmaceutical products, product liability and other types of insurance have become more difficult and costly for pharmaceutical companies to obtain. Our product liability insurance may not cover all of the future liabilities we might incur in connection with the development, manufacture or sale of our products or, in the case of BioVectra, the liabilities we might incur in connection with their manufacture of product for other companies. In addition, we may not continue to be able to obtain insurance on satisfactory terms or in adequate amounts.

A successful claim or claims brought against us in excess of available insurance coverage could subject us to significant liabilities and could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Such claims could also harm our reputation and the reputation of our products, adversely affecting our ability to market our products successfully. In addition, defending a product liability lawsuit is expensive and can divert the attention of key employees from operating our business.

Product recalls may be issued at our discretion or at the discretion of our suppliers, government agencies and other entities that have regulatory authority for pharmaceutical sales. Any recall of Acthar could materially adversely affect our business by rendering us unable to sell Acthar for some time, causing us to incur significant recall costs and by adversely affecting our reputation. A recall could also result in product liability claims.

Business interruptions could limit our ability to operate our business.

Our operations, including those of our suppliers, are vulnerable to damage or interruption from computer viruses, human error, natural disasters, telecommunications failures, intentional acts of vandalism and similar events. We have not established a formal disaster recovery plan, and our back-up operations and our business interruption insurance may not be adequate to compensate us for losses that occur. A significant business interruption could result in losses or damages incurred by us and require us to cease or curtail our operations.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we or our distribution partners and clinical trial partners may collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our customers and employees, in our outside data centers and on our networks. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, including state laws and rules and regulations promulgated under the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and regulatory penalties, disrupt our operations, and damage our reputation, and cause a loss of confidence in our products and services, which could adversely affect our business.

Risks Related to our Common Stock

Our stock price has a history of volatility, and an investment in our stock could decline in value.

The price of our common stock is subject to significant volatility. The price per share of our common stock ranged in value from $12.16 to $58.91 during the two-year period ended December 31, 2012. Any number of events, both internal and external to us, may continue to affect our stock price. For example, our quarterly revenues or earnings or losses can fluctuate based on the buying patterns of our specialty distributor and our end users. In the event that patient demand for Acthar is less than our sales to our specialty distributor, excess Acthar inventories may result at our specialty distributor, which may impact future Acthar sales. Other potential events that could affect our stock price include, without limitation, our quarterly and yearly revenues and earnings or losses; announcements by us or our competitors regarding product development efforts, including the status of regulatory approval applications; the outcome of legal proceedings; the launch of competing products or the public notice of an FDA filing relating to a potential competitive product; and our ability to obtain product from our contract manufacturers, the publication of negative or neutral coverage by research analysts or others, and efforts to manipulate our stock price by investors or others that engage in the manipulation of stock prices.

As of January 31, 2013, NASDAQ reported a short interest of approximately 25.9 million shares in our common stock, and it is possible that the NASDAQ short interest reporting system does not fully capture total short interest. It is generally in the short seller's interests for the price of a stock to decline. Questcor is aware that other companies have alleged that short sellers have taken various actions aimed at reducing the stock price of such companies in order to generate profit on their short positions. These actions have been alleged to include arranging for the publication of negative opinions or mischaracterization of facts regarding companies and their business prospects. As this potentially relates to Questcor, our stock price exhibited significant volatility at various time during 2012 following various publications and other communications relating to Questcor. There is risk that similar actions could continue to occur in 2013 and therefore continue to create significant volatility in our stock price. It is also a possibility that short sellers could attempt to reduce the price of our stock by attempting to cause harm to our business.

Our future policy concerning the payment of dividends is uncertain, which could adversely affect the price of our stock.

We recently began to pay a quarterly dividend on our common stock. There can be no guarantees that we will have the financial ability to fund this quarterly dividend in perpetuity or to pay it at the current rate. Further, our Board of Directors may decide not to declare a dividend at some future time for financial or non-financial reasons. Unfulfilled expectations regarding future dividends could adversely affect the price of our stock.

Our quarterly results may fluctuate significantly and could fall below the expectations of securities analysts and investors, resulting in a decline in our stock price.

In addition to the risk factors detailed elsewhere in this Form 10-K, our quarterly operating results and share price may fluctuate significantly because of several factors, including:

- public concern as to the safety of drugs developed by us or others;
- availability of Acthar;
- patient safety concerns;
- announced inquiries by governmental agencies or updates regarding previously announced inquiries;
- unfavorable outcomes related to the government investigations or lawsuits brought against us or our directors and officers, including those currently in process;
- departure of key managers;
- negative opinions regarding company actions from proxy advisory firms;
- activities of certain investors who elect to short sell our stock;
- the announcement and timing of new product introductions by us or others;
- the timing of our regulatory submissions or approvals, or the failure to receive regulatory approvals;
- prescription trends and the level of orders from CuraScript SD within a given quarter and preceding quarters;
- availability and level of third party reimbursement;
- political developments or proposed legislation in the pharmaceutical or healthcare industry;
- economic or other external factors, disaster or crisis;
- changes in government regulations or policies or patent decisions;
- unforeseen financial or operational issues related to BioVectra;
- failure to meet market expectations or changes in opinions of analysts who follow our stock; or
- general market conditions.

If we were to be negatively impacted by any of these factors, it could cause a decrease in our stock price.

We have significant stock option overhang which could dilute your investment.

We have an overhang of common stock due to a low average exercise price of employee stock options. The future exercise of employee stock options could cause dilution, which may negatively affect the market price of our shares.

We have certain anti-takeover provisions in place.

Certain provisions of our Amended and Restated Articles of Incorporation and the California General Corporation Law could discourage a third-party from acquiring, or make it more difficult for a third-party to acquire, control of our company without approval of our board of directors. These provisions could also limit the price that certain investors might be willing to pay in the future for shares of our common stock. Certain provisions allow the board of directors to authorize the issuance of preferred stock with rights superior to those of the common stock. We are also subject to Section 1101(e) of the California General Corporation Law, which, among other things, limits the ability of a majority shareholder holding more than 50% but less than 90% of the outstanding shares of a California corporation from consummating a cash-out merger.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2012, we do not own any real property and we lease space in three locations.

- We lease 30,000 square feet of laboratory and office space in Hayward, California under a master lease that expires in May 2018. This facility is occupied by our Commercial Development, Sales and Marketing, Medical Affairs, Contract Manufacturing, Quality Control and Quality Assurance departments.

- We lease 15,600 square feet of office space in Ellicott City, Maryland under a lease agreement that expires in October 2017. This facility is occupied by our Product Development and Regulatory Affairs departments.

- We lease 7,900 square feet of office space in Anaheim, California under a lease agreement that expires in October 2014. This facility is occupied by our Executive, Finance and Administration departments, and serves as our corporate headquarters.

We believe that our current leased office space is sufficient to meet our current business requirements and that additional office space will be available on commercially reasonable terms if required. In connection with our acquisition of BioVectra, Inc., we now own various buildings and parcels of land.

Item 3. 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. We are defending this lawsuit vigorously. In October 2012, a Judge of the Superior Court denied Glenridge summary judgment on its claims. In February 2013, a Judge of the Superior Court granted Glenridge's unopposed motion to amend its complaint.

In August 2012, we filed a separate lawsuit in the Superior Court of California, Orange County, against the three principals of Glenridge, as well as Glenridge, challenging the enforceability of our agreement with Glenridge, and alleging breach of fiduciary duty, as well as aiding and abetting of the breach, by the principals. In November 2012, a Judge of the Superior Court of California, Orange County, transferred this lawsuit to the Superior Court of California, Santa Clara County. In February 2013, a Judge of the Superior Court denied Glenridge's motion to stay this lawsuit in favor of the accounting lawsuit described in the immediately preceding paragraph. We have filed a motion for summary judgment on issues related to the fiduciary duty claim. A hearing on the motion is scheduled in May 2013.

USAO Investigation

On September 21, 2012, we became aware of an investigation by the United States Attorney's Office for the Eastern District of Pennsylvania (the "USAO") 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 are cooperating with the USAO 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 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, 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 January 4, 2013, the district court issued an order appointing the West Virginia Investment Management Board and Plumbers & Pipefitters

National Pension Fund as Lead Plaintiffs in the consolidated securities action. We expect the appointed Lead Plaintiffs to file a consolidated amended complaint for the consolidated securities action on or before March 5, 2013.

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)*. We expect the plaintiffs to file a consolidated amended complaint for the consolidated shareholder derivative action on or before March 19, 2013.

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 *Norton* case 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, 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 *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. In January 2013, a Judge of the Superior Court held a hearing with regard to our motion to stay these state shareholder derivative actions in favor of the putative federal securities class action and federal shareholder derivative action. On February 19, 2013, the court issued a final ruling granting our motion to stay the state derivative actions until the putative federal securities and federal derivative actions are resolved.

We believe that the probability of unfavorable outcome or loss related to this litigation and an estimate of the amount or range of loss, if any, from an unfavorable outcome are not determinable at this time. 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 stockholders 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 4. Mine Safety Disclosure

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity; Related Shareholder Matters and Issuer Purchases of Equity Securities

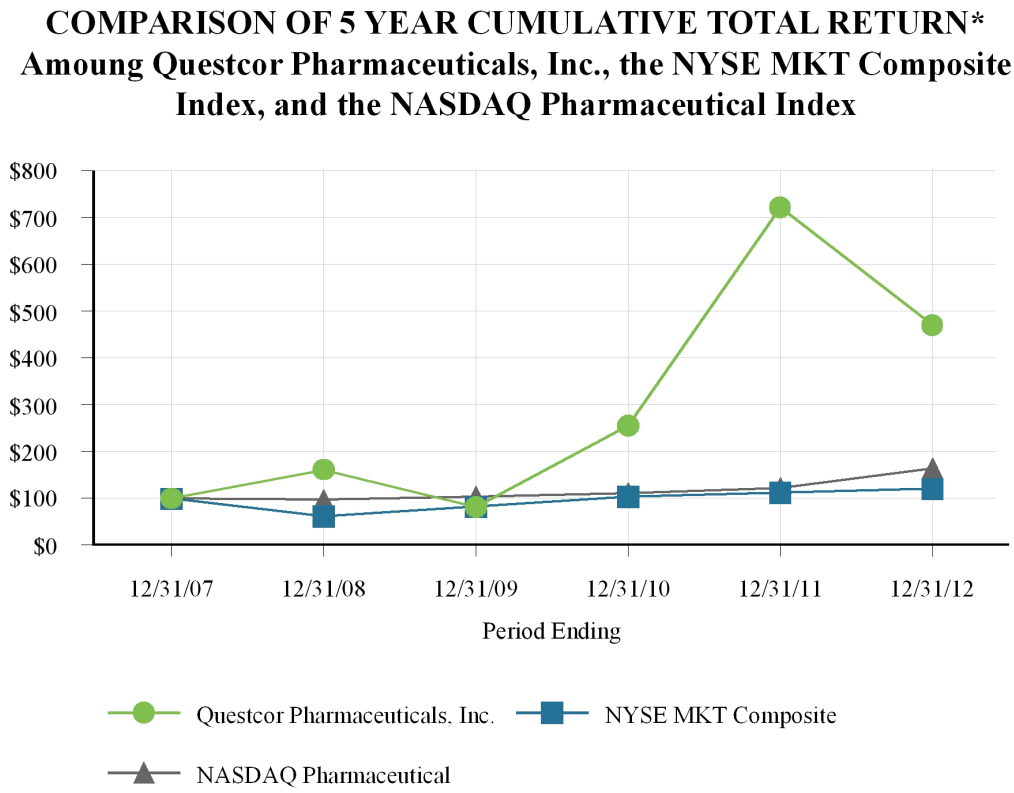
Price Range of Common Stock

Our common stock is listed on the NASDAQ Global Select Market under the symbol "QCOR." The following table shows the high and low sale prices for our common stock as reported by The NASDAQ Global Select Market during the calendar quarters indicated:

	High	Low
Year Ended December 31, 2011		
First Quarter	$ 16.67	$ 12.16
Second Quarter	24.93	14.44
Third Quarter	32.78	24.00
Fourth Quarter	45.95	25.94
Year Ended December 31, 2012		
First Quarter	44.18	32.83
Second Quarter	54.31	37.18
Third Quarter	58.91	17.25
Fourth Quarter	30.39	17.60
Year Ending December 31, 2013		
First Quarter (through February 15, 2013)	$ 30.10	$ 27.55

Stock Performance Graph

The following graph compares our total cumulative shareholder return as compared to the NYSE Amex Composite Index and the NASDAQ Pharmaceutical Index for the period beginning on December 31, 2007 and ending on December 31, 2012. Total shareholder return assumes $100.00 invested at the beginning of the period in our common stock, the stocks represented by the NYSE Amex Composite Index and the NASDAQ Pharmaceutical Index, respectively. Total return assumes reinvestment of dividends.



This stock performance graph shall not be considered soliciting material and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Securities Act, whether made on, before or after the date of this filing and irrespective of any general incorporation language in such filing.

Holders of Common Stock

As of January 31, 2013, there were approximately 424 shareholders of record of our common stock based upon the records of our transfer agent which do not include beneficial owners of common stock whose shares are held in the names of various securities brokers, dealers and registered clearing agencies.

Stock Repurchases

See "Liquidity and Capital Resources — Financing Activities" in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this Form 10-K for information on our stock repurchases.

Dividend Policy

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 December 2012, we announced an accelerated cash dividend of $0.20 per share to all shareholders of record at the close of business on December 14, 2012. The accelerated dividend was in lieu of any quarterly dividend we otherwise would have declared in the first quarter of 2013. In February 2013, we announced an increase in our quarterly cash dividend from $0.20 per share to $0.25 per share, with such increase occurring with the quarterly cash dividend to be paid in the second quarter of 2013.

Equity Compensation Plans

For information regarding our equity compensation plans please see Item 12 of this Annual Report.

Item 6. Selected Financial Data

The following table sets forth certain financial data with respect to our business. The selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and related Notes and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other information contained elsewhere in this Annual Report.

	Years Ended December 31,				
	2012	2011	2010	2009	2008
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					
Net sales	$ 509,292	$ 218,169	$ 115,131	$ 88,320	$ 95,248
Total operating expenses	184,210	92,592	53,278	40,083	30,364
Income from operations	296,527	113,118	53,840	41,220	57,580
Gain on sale of product rights	—	—	—	225	75
Income tax expense	99,555	34,154	19,302	15,502	18,198
Net income	197,675	79,591	35,071	26,629	40,532
Net income applicable to common shareholders	197,675	79,591	35,071	26,629	35,265
Net income per share applicable to common shareholders:					
Basic	$ 3.28	$ 1.27	$ 0.56	$ 0.41	$ 0.52
Diluted	$ 3.14	$ 1.21	$ 0.54	$ 0.40	$ 0.49
Shares used in computing net income per share applicable to common shareholders:					
Basic	60,243	62,498	62,112	64,196	67,761
Diluted	63,045	66,010	64,741	66,257	71,350
Dividends declared per common share	$ 0.40	—	—	—	—

	December 31,				
	2012	2011	2010	2009	2008
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 155,313	$ 210,149	$ 114,832	$ 75,707	$ 55,451
Working capital	146,877	209,879	111,988	71,049	59,272
Total assets	252,431	275,808	151,993	111,440	89,146
Common stock	15,938	94,976	74,809	67,793	84,028
Retained earnings (accumulated deficit)	145,851	124,886	45,295	10,224	(16,405)
Total shareholders' equity	161,829	219,826	120,127	78,003	67,892

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Annual Report on Form 10-K contains forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995 and concern matters that involve risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Discussions containing forward-looking statements may be found in the material set forth under "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in other sections of this Annual Report on Form 10-K. Words such as "may," "will," "should," "could," expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," "continue" or similar words are intended to identify forward-looking statements, although not all forward-looking statements contain these words. Although we believe that our opinions and expectations reflected in the forward-looking statements are reasonable as of the date of this Annual Report on Form 10-K, we cannot guarantee future results, levels of activity, performance or achievements, and our actual results may differ substantially from the views and expectations set forth in this Annual Report on

Form 10-K. We expressly disclaim any intent or obligation to update any forward-looking statements after the date hereof to conform such statements to actual results or to changes in our opinions or expectations. Readers are urged to carefully review and consider the various disclosures made by us, which attempt to advise interested parties of the risks, uncertainties, and other factors that affect our business, set forth in detail in Item 1A of Part I, under the heading “Risk Factors.”

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes to those statements contained elsewhere in this Annual Report on Form 10-K.

Overview

Questcor is a biopharmaceutical company focused on the treatment of patients with serious, difficult-to-treat autoimmune and inflammatory disorders. 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 generate 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-K, 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.

- Multiple Sclerosis (MS): Acthar is indicated “for the treatment of acute exacerbations of multiple sclerosis in adults. Controlled clinical trials have shown Acthar 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 support this vulnerable patient population. We believe that a significant percentage of the $262 million in free drug we have provided through the National Organization of Rare Disorders, from September 2007 through December 31, 2012, has been used to treat IS. We support the IS community through other initiatives. In February 2012, we were awarded the first-ever Corporate Citizenship Award presented by the Child Neurology Foundation. This award honors our long-term commitment to support the child neurology community as well as our specific efforts to fund education and research related to IS.

- 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."

We continue to explore additional markets for other on-label indications. 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.

Our other product is Doral® (quazepam), which is indicated for the treatment of insomnia characterized by difficulty in falling asleep, frequent nocturnal awakenings, and/or early morning awakenings. We own the U.S. rights to and have modest sales of Doral.

Results of Operations

Years Ended December 31, 2012, 2011 and 2010

Net Sales. Net sales, which we derive from our sales of Acthar and Doral, were $509.3 million in 2012, compared to $218.2 million in 2011 and $115.1 million in 2010. The following table sets forth our net sales for the years ended December 31, 2012, 2011 and 2010, respectively (in thousands):

	Years Ended December 31,		
	2012	2011	2010
Revenue	$ 582,097	$ 268,827	$ 154,806
Less sales reserves:			
Provision for Medicaid rebates	58,205	46,481	37,159
Provision for chargebacks	467	142	106
Provision for Coverage Gap Discount	943	348	—
Provision for Tricare rebates	5,090	1,691	1,202
Co-payment assistance and other	8,100	1,996	1,208
Total sales reserves	72,805	50,658	39,675
Net sales	$ 509,292	$ 218,169	$ 115,131

2012 compared to 2011: Net sales of Acthar increased by approximately 133.8% to $508.9 million for the year ended December 31, 2012 from $217.7 million in 2011. The increase in net sales was attributable to increased vial demand from CuraScript SD, our distributor for Acthar. We shipped 20,741 vials for the year ended December 31, 2012 as compared to 10,710 vials shipped for the year ended December 31, 2011. While we do not receive complete information regarding prescriptions by therapeutic area, we believe increased demand from CuraScript SD was driven by strong prescription growth in each of our NS and MS therapeutic areas.

Net sales for the year ended December 31, 2012 were also positively affected by increases in the price we charge CuraScript SD for Acthar. We increased the price of Acthar on December 27, 2011 by 6.5% and on May 15, 2012 by 5%, and currently charge CuraScript SD $28,430 per vial.

Our net sales are also impacted by the amount of our sales reserves, which are deducted from revenue in the calculation of net sales. During the years ended December 31, 2010, 2011 and 2012, the largest component of our sales reserves related to our provision for Medicaid rebates. This provision is impacted by two factors. First, 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, the growth in our NS and MS sales relative to IS sales has resulted in an overall lower percentage of sales being attributable to patients enrolled in Medicaid. Second, the rebate amount for Acthar affects our provision for Medicaid rebates. For the year ended December 31, 2012, we recorded a provision of 12.5% of our gross revenue for sales-related reserves, a decrease from the 18.8% in the year ended December 31, 2011. During the years ended December 31, 2010, 2011 and 2012, the Medicaid rebate amount equaled 100% of the Average Manufacturer Price, or AMP, of Acthar which approximates the amount we charge to CuraScript SD. As such, we did not generate any net sales in connection with Medicaid business. During the first quarter of 2013, the Medicaid rebate amount for Acthar was reset from 100% of the AMP of Acthar to the basic rebate amount of 23.1% of AMP.

We believe that approximately three-quarters of our growth in net sales from 2011 to 2012 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.

We believe that Acthar represents a promising potential therapy for patients suffering from the difficult-to-treat, on-label medical conditions for which we currently promote Acthar. Acthar, however, remains relatively unknown to physicians who practice in the relevant medical specialties. As a result, we have expanded our sales force in order to increase our ability to educate such physicians about Acthar's potential benefit to their patients. It is unclear whether this will continue to result in increased net sales. The process of significantly expanding a sales force in the biopharmaceutical industry is complex. We modify and re-allocate individual sales territories across our enlarged sales force, which can cause temporary disruptions in our selling efforts. Additionally, while the cost of our new sales representatives impacts our operating expenses immediately, there can be a delay in the expected ability of our new representatives to increase our net sales due to the time it takes for us to train the new representatives and for the new representatives to establish professional relationships with prescribing physicians within their territories.

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 our own Acthar shipments 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. For example, in late December 2012, we received and shipped two orders of Acthar for a total of 360 vials. We believe that distribution channel inventory was at the high end of the normal historic range as of December 31, 2012.

2011 compared to 2010: Net sales of Acthar increased by approximately 90% to $217.7 million for the year ended December 31, 2011 from $114.7 million for the year ended December 31, 2010. The increase in net sales was due to an increase in the number of Acthar vials shipped from 6,696 vials shipped in 2010, up to 10,710 vials shipped in 2011, a reduction in the per vial rebate liability for both Medicaid and TRICARE, and a reduction in the number of Medicaid fee for service prescriptions. This increase was partially offset by an increase in our Medicaid Managed Care Organization rebate, which became effective on March 23, 2010.

Our increased detailing efforts and our initiatives to educate MS specialists about the treatment benefits of Acthar resulted in a significant increase in sales of Acthar to treat select MS exacerbation patients for the year ended December 31, 2011 as compared to the same period in 2010. During the year ended December 31, 2011, new paid Acthar prescriptions processed by our reimbursement support center for the treatment of MS exacerbations increased by approximately 155% as compared to 2010.

Cost of Sales and Gross Profit

	Years Ended December 31,		
	2012	2011	2010
Cost of sales	$ 28,555	$ 12,459	$ 8,013
Gross profit	480,737	205,710	107,118
Gross margin	94%	94%	93%

Cost of sales was $28.6 million for the year ended December 31, 2012, as compared to $12.5 million for 2011 and $8.0 million for 2010. We include in cost of sales material costs, packaging, warehousing and distribution, product liability insurance, royalties, quality control (which primarily includes product stability testing), quality assurance and reserves for excess or obsolete inventory. Our gross margin and gross profit was 94% and $480.7 million, respectively, in 2012, as compared to 94% and $205.7 million, respectively, in 2011 and 93% and $107.1 million, respectively, in 2010. The increase in gross profit dollars is due to continued growth in paid prescriptions for all of our indications. The increase in cost of sales was primarily due to an increase in net sales coupled with an increase in the cost for outside product potency testing and an increase in royalties on Acthar net sales, offset by a decrease in the proportionate amount of distribution costs relative to net sales. We continue to expect our cost of sales, in absolute dollars, to increase in future periods due to increased costs associated with outside product potency testing, product stability testing and, in the event of increased net sales, higher royalty payments. The manufacturing process for Acthar 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. Selling and marketing expenses were $114.1 million for the year ended December 31, 2012, as compared to $56.7 million in 2011 and $31.5 million in 2010. The increase of $57.4 million in 2012 as compared to 2011 is due primarily to increases in headcount-related costs and costs associated with our expanded sales and marketing effort. We primarily include in sales and marketing expenses headcount-related costs, promotional costs and physician program costs. We have expanded our sales force and expect selling and marketing expenses to increase in future periods.

The increase in selling and marketing expenses of $25.2 million in 2011 as compared to 2010 was also due primarily to increases in headcount-related costs and costs associated with our expanded sales and marketing effort.

General and Administrative. General and administrative expenses were $33.6 million for the year ended December 31, 2012, as compared to $17.7 million in 2011 and $10.3 million in 2010. The increase of $15.9 million in 2012 as compared to 2011, as well as the increase of $7.4 million in 2011 as compared to 2010, is due primarily to increases in headcount and headcount-related costs to support our growth, including increased bonus compensation for our bonus-eligible employees, and increased legal costs.

Research and Development. Research and development expenses were $34.3 million in 2012, as compared to $16.8 million in 2011 and $10.9 million in 2010. The increase of $17.5 million in research and development expenses in 2012 as compared to 2011 was primarily due to increases in headcount and headcount-related costs to support our efforts to explore the use of Acthar as a therapeutic alternative for the treatment of NS and costs incurred associated with the following clinical studies: (1) the initiation of our Phase 4 dose response clinical trial for idiopathic membranous nephropathy, (2) the initiation of our pilot safety and efficacy study of Acthar in patients with diabetic nephropathy, and (3) the initiation of our study exploring

the efficacy, safety and pharmacodynamics of Acthar in system lupus erythematosus. Costs included in research and development also include costs associated with the funding of 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:

- Medical Affairs Costs - Medical affairs costs, which include activities related to medical information in support of Acthar and its related indications.
- 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.
- Manufacturing Costs - Manufacturing costs, which include costs related to production scale-up and validation, raw material qualification and stability studies.

For the year ended December 31, 2012, approximately 42% of our research and development expenditures were for medical affairs costs, 8% was spent on regulatory costs, 39% was spent on product development costs, and approximately 11% was spent on manufacturing costs.

For the year ended December 31, 2011, approximately 36% of our research and development expenditures were for medical affairs costs, 12% was spent on regulatory costs, 37% was spent on product development costs, and approximately 15% was spent on manufacturing costs.

For the year ended December 31, 2010, approximately 43% of our research and development expenditures were for medical affairs costs, 25% was spent on regulatory costs, 12% was spent on product development costs, and approximately 20% was spent on manufacturing costs.

We plan to continue to expand our research and development efforts to support the use of Acthar as a therapeutic alternative for the treatment of NS. In 2011, we started a Phase 4 dose response clinical trial for idiopathic membranous nephropathy and in 2012, we started a pilot safety and efficacy study of Acthar in patients with diabetic nephropathy and proteinuria. These clinical trials will result in a significant increase in research and development expenses through 2013. We may also pursue clinical trials to evaluate the use of Acthar to treat other therapeutic uses, including conditions that are not currently on the label of approved indications for Acthar.

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.

Share-based compensation costs. Total share-based compensation costs for the years ended December 31, 2012, 2011 and 2010 were $15.8 million, $7.3 million and $3.7 million, respectively. This increase was primarily due to a significant increase in the number of employees participating in our equity compensation programs. For the year ended December 31, 2012, we granted options to employees and non-employee directors to purchase approximately 1,899,909 shares of our common stock at a weighted average exercise price of $36.16 per share, which was equal to the weighted average of the fair market value of our common stock on the date of each grant. In addition to stock options, we also granted restricted stock awards to certain employees. The total share-based compensation costs related to these restricted stock awards for the years

ended December 31, 2012, 2011 and 2010 were $1.8 million, $163,000 and $50,000, respectively. The following table sets forth our share-based compensation costs for the years ended December 31, 2012, 2011 and 2010, respectively (in thousands):

	Years Ended December 31,		
	2012	2011	2010
Selling and marketing	$ 5,360	$ 4,236	$ 952
General and administrative	7,467	1,884	1,832
Research and development	2,965	1,206	955
Total share-based compensation expense	$ 15,792	$ 7,326	$ 3,739

Total Other Income. Total other income for the year ended December 31, 2012 was $0.7 million, as compared to $0.6 million for 2011 and $0.5 million for 2010. The increase in total other income of $0.1 million in 2012 as compared to 2011 was the result of an increase in the average cash balances on hand for 2012 as compared to 2011 resulting in higher interest income. The increase in total other income of $0.1 million in 2011 as compared to 2010 was the result of an increase in miscellaneous income offset by a lower yield on our cash, cash equivalent and short-term investment balances year over year.

Income tax expense. Income tax expense for the years ended December 31, 2012, 2011 and 2010 was $99.6 million, $34.2 million and $19.3 million, respectively, and our effective tax rate for financial reporting purposes was approximately 33.5%, 30.0% and 35.5%, respectively. The increase in our effective income tax rate in 2012 as compared to 2011 is due to an increase in nondeductible expense, the absence of research and development tax credits in 2012, and the one-time tax credit recorded in 2011 for the costs incurred in obtaining the orphan drug designation. The decrease in the effective tax rate in 2011 as compared to 2010 is due to the reduction in our state income tax rate because beginning in 2011, California allows for a single apportionment factor and most of our sales are sourced outside of California, and finally, we recorded a one-time tax credit during 2011 for the costs incurred in obtaining the orphan drug designation.

Liquidity and Capital Resources

Cash and cash equivalents, short-term investments and working capital as of December 31, 2012 and 2011, respectively, were as follows (in thousands):

Financial Assets:

	Years Ended December 31,	
	2012	2011
Cash and cash equivalents	$ 80,608	$ 88,469
Short-term investments	74,705	121,680
Cash, cash equivalents and short-term investments	$ 155,313	$ 210,149

Select measures of liquidity and capital resources:

	Years Ended December 31,	
	2012	2011
Current assets	$ 237,276	$ 265,600
Current liabilities	90,399	55,721
Working Capital	$ 146,877	$ 209,879
Current Ratio	2.62	4.77

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 decrease in cash, cash equivalents and short-term investments was primarily due to the repurchase of 6,759,861 shares of our common stock through our approved stock repurchase plan for $261.8 million, offset by an increase in net sales

and the related cash generated from operations. The decrease in our working capital was primarily due to decreases in our cash, cash equivalents and short-term investments, offset by increases in our accounts receivable, inventories, and sales-related reserves.

Our collection terms on our accounts receivable are net 30 days, with approximately 100% of our accounts receivable and net sales generated by our distributor for Acthar, CuraScript SD, which in turn sells Acthar primarily to specialty pharmacies.

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.

During the period from October 1, 2012 through December 31, 2012, we repurchased the following shares of our common stock:

Period [1]	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
October 1 - October 31, 2012	667,207	$ 24.93	667,207	6,332,793
November 1 - November 30, 2012	80,000	$ 24.95	80,000	6,252,793
December 1 - December 31, 2012	—	$ —	—	6,252,793
Total	747,207	$ 24.93	747,207	

(1) In February 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 program may be made through either open market or privately negotiated transactions in accordance with all applicable laws, rules and regulations. On May 29, 2009, our Board of Directors increased the stock repurchase program authorization by an additional 6.5 million shares; on May 9, 2012, our Board of Directors increased the stock repurchase program authorization by an additional 5 million shares; and on September 28, 2012, our Board of Directors increased the stock repurchase program authorization to 7 million shares, including the 3.2 million shares that were remaining under the prior authorization.

Cash Flows

Change in cash and cash equivalents:

	Years Ended December 31,		
	2012	2011	2010
Net cash flows provided by operating activities	$ 219,037	$ 85,599	$ 36,557
Net cash flows provided by / (used in) investing activities	44,642	(51,479)	(44,155)
Net cash flows (used in) / provided by financing activities	(271,540)	12,841	3,277
Net change in cash and cash equivalents	$ (7,861)	$ 46,961	$ (4,321)

The decrease in net cash and cash equivalents as of December 31, 2012 from December 31, 2011 is primarily due to the repurchase of our common stock and dividends paid, offset by the increased net income achieved in 2012 versus the net income achieved in the same period in 2011. The increase in net cash and cash equivalents as of December 31, 2011 from December 31, 2010 is primarily due to the increased net income achieved in 2011 versus the net income achieved in the same period in 2010.

Operating Activities

The components of cash flows from operating activities, as reported on our Consolidated Statements 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, loss on disposal and impairment of property, equipment and intangibles was $217.3 million, $84.6 million and $39.0 million for the years ended December 31, 2012, 2011 and 2010, respectively.

- Net cash inflow due to changes in operating assets and liabilities was $1.7 million for the year ended December 31, 2012, which primarily relates to the following: (1) an increase in our sales-related reserves of $3.3 million, which relates to an increase in Acthar gross sales, (2) an increase in accrued compensation of $9.7 million, due to an increase in headcount and overall financial performance affecting the bonus accrual, (3) an increase in income taxes payable of $7.4 million, (4) an increase in accounts payable and other accrued liabilities of $14.3 million, offset by an increase in accounts receivable of $33.6 million, which also relates to an increase in Acthar gross sales.

- Net cash inflow was $1.0 million for the year ended December 31, 2011, which primarily relates to an increase in accounts payable of $1.6 million, an increase in accrued compensation $7.4 million and an increase in sales related reserves of $12.6 million, which relates to an increase in Acthar gross sales, offset by an increase in accounts receivable of $16.7 million.

- Net cash outflow was $2.4 million for the year ended December 31, 2010, which primarily relates to an decrease in accounts payable of $9.1 million, offset by an increase in sale-related reserves of $6.6 million, which relates to an increase in Acthar gross sales.

Investing Activities

The components of cash flows from investing activities for the years ended December 31, 2012, 2011 and 2010 consisted of the following:

- Purchases of property and equipment of $1.1 million for the year ended December 31, 2012, $1.8 million for the year ended December 31, 2011 and $0.7 million for the year ended December 31, 2010; and

- Purchases of short-term investments of $145.4 million for the year ended December 31, 2012, $162.3 million for the year ended December 31, 2011 and $106.6 million for the year ended December 31, 2010; offset by

- Maturities of short-term investments of $191.1 million for the year ended December 31, 2012, $112.6 million for the year ended December 31, 2011 and $62.6 million for the year ended December 31, 2010.

Financing Activities

Net cash flows from financing activities for the year ended December 31, 2012, 2011 and 2010 reflected the following:

- The income tax benefit realized on our share-based compensation plans of $7.5 million for the year ended December 31, 2012, $17.7 million for the year ended December 31, 2011 and $1.3 million for the year ended December 31, 2010; and

- The issuance of common stock related to both our Employee Stock Purchase Plan and the exercise of stock options for $6.3 million for the year ended December 31, 2012, $6.6 million for the year ended December 31, 2011 and $1.9 million for the year ended December 31, 2010; offset by

- The repurchase of shares of our common stock of $261.8 million to repurchase 6,759,861 shares of our common stock under our stock repurchase plan for the year ended December 31, 2012 and $11.5 million to repurchase 884,300 shares of our common stock under our stock repurchase plan for the year ended December 31, 2011. No shares of our common stock were repurchased during 2010; and

- Dividends paid during the year ended December 31, 2012 of $23.5 million. No dividends were paid during the years ended December 31, 2011 and 2010.

On January 18, 2013, we acquired 100% of the issued and outstanding shares of BioVectra for $50.8 million plus up to an additional C$50.0 million ($49.1 million in U.S. dollars as of February 21, 2013) in cash tied to the future performance of BioVectra.

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 16.0 million shares of our common stock under our stock repurchase plan for $309.9 million through December 31, 2012, at an average price of $19.37 per share. Additionally, we have repurchased 6.2 million shares of our common stock outside of our stock repurchase plan for a total of $30.3 million through December 31, 2012 at an average price of $4.93 per share for a total repurchase value of $340.3 million. As of December 31, 2012, there are 6.3 million shares authorized remaining under our stock repurchase plan.

Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2012. This table does not include potential milestone payments, future sales-based royalty obligations and assumes non-termination of agreements (in thousands):

	Payments Due by Period				
	Total	1 Year or Less	1 to 3 Years	3 to 5 Years	After 5 Years
			(In $000's)		
Total contractual cash obligations	$ 17,393	$ 5,309	$ 8,126	$ 3,845	$ 113

Total contractual cash obligations include the following:

(1) As of December 31, 2012 we leased space in three buildings with lease terms expiring in 2014, 2017 and 2018. We have also entered into various office equipment leases and automobile leases, the terms of which are typically three years. Annual rent expense for all of our facilities, equipment and automobile leases for the year ended December 31, 2012 was approximately $3.2 million.

- We lease 30,000 square feet of laboratory and office space in Hayward, California under a master lease that expires in May 2018. This facility is occupied by our Commercial Development, Sales and Marketing, Medical Affairs, Contract Manufacturing, Quality Control and Quality Assurance departments.
- We lease 15,600 square feet of office space in Ellicott City, Maryland under a lease agreement that expires in October 2017. This facility is occupied by our Product Development and Regulatory Affairs departments.
- We lease 7,900 square feet of office space in Anaheim, California under a lease agreement that expires in October 2014. This facility is occupied by our Executive, Finance and Administration departments, and serves as our corporate headquarters.

(2) During the year ended December 31, 2011, we entered into an agreement with CSL Behring LLC, or CSL Behring, to provide potency and toxicity testing on Acthar prior to releasing the product for commercial distribution. Beginning on January 1, 2012, the agreement provides for a maximum number of tests to be performed each year. Tests performed in excess of the maximum are to be paid on a per test basis. We have been in compliance with the terms of our agreement with CSL Behring.

Critical Accounting Policies and Estimates

We base our management's discussion and analysis of financial condition and results of operations, as well as disclosures included elsewhere in this Annual Report on Form 10-K, upon our consolidated financial statements, which we have prepared in accordance with U.S. generally accepted accounting principles. We describe our significant accounting policies in the notes to the audited consolidated financial statements contained elsewhere in this Annual Report on Form 10-K. We include within these policies our "critical accounting policies." Critical accounting policies are those policies that are most important to the preparation of our consolidated financial statements and require management's most subjective and complex judgment due to the need to make estimates about matters that are inherently uncertain. Changes in estimates and assumptions based upon actual results may have a material impact on our results of operations and/or financial condition.

We believe that the critical accounting policies that most impact the consolidated financial statements are described below.

Revenue Recognition

We recognize revenue in accordance with Accounting Standards Codification 605, "Revenue Recognition-Products," or ASC 605, from sales of Acthar and Doral. Pursuant to ASC 605, we recognize revenue when we have persuasive evidence that an arrangement, agreement or contract exists, when title for our product and risk of loss have passed to our customers, the price we charge for our product is fixed or is readily determinable, and we are reasonably assured of collecting the amounts owed under the resulting receivable. For sales of both of our products, we do not require collateral from our customers. In order to ensure that patients who need Acthar are able to obtain it regardless of ability to pay, we also support the patient assistance programs administered by the National Organization of Rare Disorders, or NORD, and the Chronic Disease Fund by providing free drug with a commercial value of over $262 million to patients from September 2007 through December 31, 2012. We do not recognize any revenue from our free drug program.

In the United States, our exclusive customer for Acthar is CuraScript SD. For our sales to CuraScript SD, a sale of Acthar occurs when CuraScript SD accepts a shipment of Acthar. We sell Acthar at a discount from our list price to CuraScript SD, which then sells Acthar primarily to approximately 12 specialty pharmacies, including CuraScript SP, and to many hospitals. We sell Doral to pharmaceutical wholesalers, which in turn sell Doral primarily to retail pharmacies and hospitals.

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;
- Returns, 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 Center 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's regulations. For the years ended December 31, 2012, 2011 and 2010, the rebate amount equaled 100% of the Average Manufacturer Price, or AMP, of Acthar which approximates the amount we charge to CuraScript SD. During the first quarter of 2013, the Medicaid rebate amount for Acthar was reset from 100% of the AMP of Acthar to the basic rebate of 23.1% of AMP.

States have historically provided us with rebate invoices for their Medicaid Fee for Service reimbursements between 60 to 90 days after the end of the calendar quarter in which our products were provided. Certain states are taking longer to submit their initial rebate invoices for the Medicaid Managed Care Organization utilization that became rebate eligible on March 23, 2010, as a result of the enactment of the Health Care Reform Acts. We estimate the end of period liability and the sales reserve needed for these Medicaid rebates based on the following multi-step process:

- Using a predictive model, we review national Medicaid statistics as well as internal information received from our Acthar reimbursement support center and from CuraScript SP for the most recent completed quarter to develop an estimate of future Medicaid rebate invoices that we expect to receive. This includes an estimate for future Medicaid Fee for Service and Medicaid Managed Care Organization rebate invoices.
- We review the Medicaid rebate invoices received during the last 90 days and compare those invoices to the reserve that we had previously set at the end of the prior quarter. Based on this comparison and using the predictive model and other available information, which is updated quarterly, we estimate the remaining liability that we believe is still outstanding for periods prior to the most recently completed quarter.
- Based on estimated end-of-quarter inventory held at CuraScript SD, all specialty pharmacies and hospitals, we calculate the expected future rebate liability for that portion of the estimated distribution channel inventory which will eventually be used to fill prescriptions for Medicaid patients.

Using similar processes, we estimate the end of period liability and the sales reserve needed for TRICARE retail program rebates, Medicare Part D Coverage Gap Discount Program rebates, or Coverage Gap Discount rebates (commonly referred to as the Medicare Part D “donut hole”), and chargebacks due to other government programs. The Coverage Gap Discount Program took effect on January 1, 2011. We do not believe this program has or will have a material effect on our cash flows or results of operations.

Our resulting total sales reserve includes the sum of the Medicaid sales reserve, the TRICARE sales reserve, the Coverage Gap Discount reserve, the chargeback sales reserve, co-pay assistance payments, and payment discounts provided.

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 CuraScript SP (which is owned by CuraScript SD) 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.

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

	Years Ended December 31,		
	2012	2011	2010
Balance at January 1	$ 29,874	$ 17,384	$ 11,070
Actual Medicaid rebate payments for sales made in prior year	(18,449)	(9,104)	(7,929)
Actual Medicaid rebate payments for sales made in current year	(35,709)	(24,887)	(22,916)
Current Medicaid rebate provision for sales made in prior year	1,153	8	664
Current Medicaid rebate provision for sales made in current year	57,052	46,473	36,495
Balance at December 31	$ 33,921	$ 29,874	$ 17,384

TRICARE Retail Pharmacy Programs

The Department of Defense, or DoD, TRICARE Retail Pharmacy program became effective on May 26, 2009 pursuant to section 703 of the National Defense Authorization Act of 2008. This program and its regulations require manufacturers to pay rebates, retroactive to January 28, 2008, to the DoD on products distributed to TRICARE beneficiaries through retail pharmacies. The regulations further require that pharmaceutical products paid for by the DoD through the TRICARE Retail Pharmacy program be subject to the Federal Ceiling Price program, which requires manufacturers to provide the DoD with a refund on pharmaceutical products utilized through the TRICARE Retail Pharmacy program. As a result, we established a sales reserve of $3.5 million for TRICARE rebates as of the year ended December 31, 2009, which covered 100% of our estimated liability for the time period January 28, 2008 through December 31, 2009. In late October 2011, the United States District Court for the District of Columbia issued its decision in *Coalition for Common Sense in Government Procurement v. United States*, No. 08-996 (D.C. Dist. Ct. Oct. 25, 2011) upholding the DoD's regulation. During the year ended December 31, 2012, we paid $1.7 million for the periods January 28, 2008 through June 30, 2009. We believe our residual reserve of $1.8 million is sufficient to cover the remaining period of July 1, 2009 through December 31, 2009.

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

	Years Ended December 31,		
	2012	2011	2010
Balance at January 1	$ 4,095	$ 4,125	$ 3,530
Actual Tricare rebate payments for sales made in prior year	(2,296)	(642)	—
Actual Tricare rebate payments for sales made in current year	(3,667)	(1,079)	(607)
Current Tricare rebate provision for sales made in prior year	—	1	—
Current Tricare rebate provision for sales made in current year	5,090	1,690	1,202
Balance at December 31	$ 3,222	$ 4,095	$ 4,125

Government Chargebacks

We permit certain other government-supported entities, such as those covered by our contract with the Veterans Administration or eligible Public Health Service, or PHS, 340B entities, to purchase Acthar from CuraScript SD based on a contractual amount. Because our payment terms with CuraScript SD are net 30 days, we include actual chargebacks taken plus an estimate applied to the units in channel when estimating the sales reserve related to government chargebacks. Sales to the Veterans Administration and PHS 340B entities are generally immaterial to our financial position as a whole.

Co-Pay Assistance Programs

We sponsor co-pay assistance programs for Acthar patients that are administered by the Chronic Disease Fund. We account for these co-pay assistance program payments as a reduction to our revenue.

Total Sales-related Reserves

At December 31, 2012 and 2011, respectively, sales-related reserves included in the accompanying Consolidated Balance Sheets were as follows (in thousands):

	December 31,	
	2012	2011
Medicaid rebates	$ 33,921	$ 29,874
Tricare rebates	3,222	4,095
Coverage Gap Discount Program rebates	194	100
Government chargebacks	38	40
Other discounts	1	10
Total	$ 37,376	$ 34,119

Inventories

We state inventories, net of allowances, at the lower of cost or market value. Cost is determined by the first-in, first-to-expire method.

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: (i) when a product is close to expiration and we do not expect it to be sold, (ii) when a product has reached its expiration date or (iii) when we do not expect a product to be saleable. In determining the reserves for our 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 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.

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 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 December 31, 2012, there was $19.1 million of total unrecognized compensation cost related to unvested restricted stock awards and $27.3 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 2.4 years.

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.

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 differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheets.

Utilization of our net operating loss and research and development credit carryforwards may still be subject to substantial annual limitations due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions for ownership changes after December 31, 2011. Such annual limitations could result in the expiration of the net operating loss and research and development credit carryforwards available as of December 31, 2011 before utilization.

Income tax expense for the years ended December 31, 2012, 2011 and 2010 was $99.6 million, $34.2 million and $19.3 million, respectively, and our effective tax rate for financial reporting purposes was approximately 33.5%, 30.0% and 35.5%, respectively. The increase in our effective income tax rate in 2012 as compared to 2011 is due to an increase in nondeductible expense, the absence of research and development tax credits in 2012, and the one-time tax credit recorded in 2011 for the costs incurred in obtaining the orphan drug designation. The decrease in the effective tax rate in 2011 as compared to 2010 is due to the reduction in our state income tax rate because beginning in 2011, California allows for a single apportionment factor and most of our sales are sourced outside of California, and finally, we recorded a one-time tax credit during 2011 for the costs incurred in obtaining the orphan drug designation.

As of December 31, 2012, we have recorded a liability for unrecognized tax benefits of $1.2 million related to various federal and state income tax matters. Our policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of tax expense. For the years ended December 31, 2012, 2011 and 2010, interest and penalties were recorded for unrecognized tax benefits of $99,000, $11,000 and $166,000, respectively. As of December 31, 2012 and 2011, our accrual for interest and penalties on any unrecognized tax benefits was $6,000 and $126,000, respectively. We do not expect unrecognized tax benefits to change significantly over the next 12 months.

Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2012-02 "Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment," or ASU No. 2012-02. ASU No. 2012-02 applies to testing the decline in realizable value of indefinite-lived intangibles other than goodwill, and applies to all public, private, and not-for-profit organizations. ASU No. 201-02 allows an organization the option of first assessing qualitative factors to determine if a quantitative impairment test of the indefinite-lived intangible asset is necessary. If the qualitative assessment reveals that it's "more likely than not" that the asset is impaired, a calculation of the asset's fair value is required. Otherwise, no quantitative calculation is necessary. FASB's previous guidance required an organization to compare the fair value of an indefinite-lived intangible asset with its carrying amount at least annually to test for impairment. If the asset's carrying amount exceeded its fair value, the difference was recognized as an impairment loss. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after Sept. 15, 2012. Early adoption is permitted. We plan to adopt ASU No. 2012-02 for fiscal year December 31, 2013 and do not anticipate a material effect on our financial position or results of operations.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market Rate 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 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 will probably 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.

International sales of our products are immaterial. Accordingly, we have not had any exposure to foreign currency rate fluctuations. However, with the acquisition of BioVectra in January 2013, international sales as a component of our total sales will increase and we will have increased exposure to foreign currency rate fluctuations.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements and supplementary data required by this item are set forth on the pages indicated in Item 15(a).

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

On March 4, 2011, our audit committee approved the dismissal of OUM & Co. LLP, or OUM, as our independent registered public accounting firm.

The audit report of OUM on our financial statements as of and for the fiscal year ended December 31, 2010 did not contain any adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope, or accounting principles.

In connection with the audit of our financial statements for the fiscal year ended December 31, 2010, and in the subsequent interim period through March 4, 2011, the date of the dismissal of OUM, (i) there were no disagreements with OUM on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to OUM's satisfaction, would have caused OUM to make reference to the subject matter of the disagreement in connection with its report, and (ii) there were no "reportable events," as that term is described in Item 304(a)(1)(v) of Regulation S-K.

OUM has provided us with a letter stating that they agree that there were no disagreements during the fiscal year ended December 31, 2010 and through March 4, 2011, and we filed a copy of such letter as Exhibit 16.1 to our Current Report on Form 8-K, filed on March 9, 2011, which was within the time periods prescribed by the SEC.

On March 7, 2011, our audit committee approved the appointment and engagement of BDO USA, LLP, or BDO, to serve as our independent registered public accounting firm, effective as of March 7, 2011.

During the fiscal year ended December 31, 2010 and in the subsequent interim period through March 7, 2011, neither the Company, nor anyone acting on its behalf, consulted with BDO regarding either: (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, and no written report nor oral advice was provided by BDO, or (ii) any matter that was either the subject of a disagreement, as that term is defined in Item 304(a)(1)(iv) of Regulation S-K, or a reportable event, as that term is defined in Item 304(a)(1)(v) of Regulation S-K.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation and under the supervision of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13(a) – 15(e) and 15(d) – 15(e) under the Exchange Act) as of the end of the period covered by this Annual Report. The Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation of these controls and procedures, that our disclosure controls and procedures were effective as of the end of the period covered by this Annual Report. Disclosure controls and procedures are designed to ensure that the information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls are met, and no evaluation of controls can provide absolute assurance that all controls and instances of fraud, if any, within a company have been detected.

(b) Changes in Internal Control over Financial Reporting and Remediation Plans

We have not made any significant changes to our internal control over financial reporting (as defined in Rules 13(a) – 15(f) and 15(d) – 15(f) under the Exchange Act) during the fourth fiscal quarter of the period ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(c) Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13(a) – 15(f) or 15(d) – 15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our board of directors, management and other personnel, 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, and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in Internal Control-Integrated Framework.

Based on our assessment, management believes that, as of December 31, 2012, our internal control over financial reporting is effective based on those criteria.

Our independent registered public accounting firm has issued a report on our assessment of our internal control over financial reporting. This report appears below.

There was no change in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

(d) Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Questcor Pharmaceuticals, Inc.

We have audited Questcor Pharmaceuticals, Inc.'s, or the Company's, internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or the COSO criteria. Questcor Pharmaceuticals, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with general accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Questcor Pharmaceuticals, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2012 and 2011 and the consolidated statements of income and comprehensive income, shareholders' equity and cash flows for the years then ended and the financial statement schedule of Questcor Pharmaceuticals, Inc. and our report dated February 27, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Orange County, California
February 27, 2013

Item 9B. Other Information

2012 Executive Compensation Information

For 2012, our executive officers, together with our non-field based employees outside the areas of Compliance and Medical Affairs, participated in an annual incentive compensation pool based on our level of operating income. For 2012, our operating income was $296.5 million, a 162% increase over our $113.1 million in operating income in 2011.

2012 Incentive Compensation

Name	Title	2012 Cash Incentive Compensation	2012 Stock Award (1)
Don M. Bailey	President and Chief Executive Officer	$ 1,950,000	70,972
Stephen L. Cartt	Chief Operating Officer	$ 1,050,000	24,689
David J. Medeiros	Executive Vice President and Chief Technical Officer	$ 742,500	17,459
Michael H. Mulroy	Senior Vice President, Chief Financial Officer and General Counsel	$ 660,000	15,519
David Young, Pharm.D., Ph.D.	Chief Scientific Officer	$ 900,000	21,162

(1) Shares granted as part of 2012 incentive compensation consist of time-based vesting and vest one-year following the grant date.

2013 Executive Compensation Information

Various annual executive compensation decisions for 2013, as described in the tables below, were ratified and approved at a meeting of our Board of Directors on February 24, 2013.

2013 Base Salaries

Name	Title	2013 Salary (1)
Don M. Bailey	President and Chief Executive Officer	$ 832,000
Stephen L. Cartt	Chief Operating Officer	$ 520,000
David J. Medeiros	Executive Vice President and Chief Technical Officer	$ 468,000
Michael H. Mulroy	Senior Vice President, Chief Financial Officer and General Counsel	$ 457,600
David Young, Pharm.D., Ph.D.	Chief Scientific Officer	$ 520,000

(1) 2013 base salaries represent 4% increases over 2012 base salaries.

2013 Incentive Compensation Target Levels

Name	Title	2013 Incentive Compensation Target(1)
Don M. Bailey	President and Chief Executive Officer	100%
Stephen L. Cartt	Chief Operating Officer	70%
David J. Medeiros	Executive Vice President and Chief Technical Officer	55%
Michael H. Mulroy	Senior Vice President, Chief Financial Officer and General Counsel	55%
David Young, Pharm.D., Ph.D.	Chief Scientific Officer	60%

(1) Targets are expressed as a percentage of the officer's 2013 base salary. Percentages for Mr. Bailey, Mr. Cartt, Mr. Medeiros and Dr. Young unchanged from prior year.

Grant of Restricted Stock Awards

Name	Title	Shares Subject to Award	
Don M. Bailey	President and Chief Executive Officer	170,500	(1)
Stephen L. Cartt	Chief Operating Officer	62,000	(2)
David J. Medeiros	Executive Vice President and Chief Technical Officer	36,500	(3)
Michael H. Mulroy	Senior Vice President, Chief Financial Officer, and General Counsel	36,500	(4)
David Young, Pharm.D., Ph.D.	Chief Scientific Officer	50,000	(5)

1. 85,250 shares of Mr. Bailey's grant consist of time-based vesting and 85,250 shares of Mr. Bailey's grant vest upon the achievement of certain performance goals and targets.
2. 31,000 shares of Mr. Cartt's grant consist of time-based vesting and 31,000 shares of Mr. Cartt's grant vest upon the achievement of certain performance goals and targets.
3. 18,250 shares of Mr. Medeiros' grant consist of time-based vesting and 18,250 shares of Mr. Medeiros' grant vest upon the achievement of certain performance goals and targets.
4. 18,250 shares of Mr. Mulroy's grant consist of time-based vesting and 18,250 shares of Mr. Mulroy's grant vest upon the achievement of certain performance goals and targets.
5. 25,000 shares of Dr. Young's grant consist of time-based vesting and 25,000 shares of Dr. Young's grant vest upon the achievement of certain performance goals and targets.

Executive Officers of Registrant

Biographical information for our executive officers is set forth below.

Don M. Bailey, 67, President and CEO, joined our Board in May 2006. Mr. Bailey was appointed our interim President in May 2007. Mr. Bailey was appointed President and Chief Executive Officer in November 2007. Mr. Bailey is currently the non-executive Chairman of the Board of STAAR Surgical Company. STAAR Surgical Company is a leader in the development, manufacture, and marketing of minimally invasive ophthalmic products employing proprietary technologies. Mr. Bailey was the Chairman of the Board of Comarco, Inc. from 1998 until 2007 and served as Comarco's Chief Executive Officer from 1991 to 2000. Mr. Bailey has been Chairman of the Board of STAAR since April 2005. Mr. Bailey holds a B.S. degree in mechanical engineering from the Drexel Institute of Technology, an M.S. degree in operations research from the University of Southern California, and an M.B.A. from Pepperdine University.

Stephen L. Cartt, 50, Chief Operating Officer, joined us in March 2005. On February 15, 2012, our Board appointed Mr. Cartt, the Company's current Executive Vice President and Chief Business Officer, as the Company's Chief Operating Officer. Mr. Cartt was a private consultant from August 2002 until March 2005. From March 2000 through August 2002, Mr. Cartt was the Senior Director of Strategic Marketing for Elan Pharmaceuticals. Prior to that, Mr. Cartt held a variety of R&D and Commercial positions at ALZA Corporation during the period July 1985 to March 2000. Mr. Cartt holds a B.S. degree from the University of California at Davis in biochemistry, and an M.B.A. from Santa Clara University.

David J. Medeiros, 61, Executive Vice President and Chief Technical Officer, joined us in June 2003 as Vice President, Manufacturing. On February 15, 2012, our Board appointed Mr. Medeiros, the Company's Senior Vice President, Manufacturing, to the position of Executive Vice President and Chief Technical Officer. Prior to joining us, Mr. Medeiros served as Senior Director, Manufacturing at Titan Pharmaceuticals, Inc. from November 2000 to June 2003. Mr. Medeiros holds a B.S. degree in chemical engineering from San Jose State University, a Master's degree in chemical engineering from University of California, Berkeley and an M.B.A. from the University of California at Berkeley.

David Young, Ph.D., 60, Chief Scientific Officer, joined our Board of Directors in September 2006. Dr. Young was appointed Chief Scientific Officer in October 2009. Prior to joining Questcor as an executive officer, Dr. Young was a member of our board of directors from September 2006 until his commencement of employment with the Company. Dr. Young was President of AGI Therapeutics, Inc. from 2006 to 2009. Previously, Dr. Young was the Executive Vice President of the Strategic Drug Development Division of ICON plc, an international CRO, from 2003 to 2006, and founder and CEO of GloboMax LLC, a contract drug development firm purchased by ICON plc in 2003, from 1997 to 2003. Prior to forming GloboMax, Dr. Young was an Associate Professor at the School of Pharmacy, University of Maryland where he held a number of roles including Director of the Pharmacokinetics and Biopharmaceutics Lab and Managing Director of the University of Maryland-VA Clinical Research Unit. Dr. Young holds a B.S. degree in physiology from the University of California, Berkeley, an M.S. degree in physics from the University of Wisconsin-Madison, a Pharm.D. from the University of Southern California and a Ph.D. in pharmaceutical sciences from the University of Southern California.

Michael H. Mulroy, 46, Senior Vice President, Chief Financial Officer, General Counsel and Corporate Secretary, joined us in January 2011. Mr. Mulroy is a member of the Board of Directors of Comarco, Inc., a leading developer and designer of mobile power adapters. From 2003 to 2011, Mr. Mulroy was employed by the law firm of Stradling Yocca Carlson & Rauth, where he served as a partner from 2004, and represented Questcor and other publicly-traded companies. From 1997 to 2003, Mr. Mulroy was an investment banker at Merrill Lynch and Citigroup. Mr. Mulroy earned his J.D. degree from the University of California, Los Angeles and his B.A. (Economics) from the University of Chicago.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

See Executive Officers of Registrant under Item 9B for biographical information for our executive officers. Other information related to Questcor's Directors required by this item will be contained in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with the Annual Meeting of our Shareholders, which is expected to be filed not later than 120 days after the end of our fiscal year ended December 31, 2012, and is incorporated in this Annual Report by reference.

The remaining information required by this item will be set forth in our definitive proxy statement for our 2013 Annual Meeting of our Shareholders and is incorporated in this Annual Report by reference.

Item 11. Executive Compensation

In accordance with Instruction G (3) to Form 10-K, the information required by this item will be set forth in our definitive proxy statement for the 2013 Annual Meeting of our Shareholders and is incorporated in this Annual Report by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The following table sets forth information regarding outstanding options and shares reserved for future issuance under our existing equity compensation plans as of December 31, 2012:

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options (a)	Weighted- Average Exercise Price of Outstanding Options (b)	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column (a)) (c)
Equity compensation plans approved by shareholders	6,446,618	$ 16.52	3,461,021
Equity compensation plans not approved by shareholders	N/A	N/A	N/A
Total	6,446,618	$ 16.52	3,461,021

The remaining information required by this item will be set forth in our definitive proxy statement for the 2013 Annual Meeting of our Shareholders and is incorporated in this Annual Report by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

In accordance with Instruction G-(3) to Form 10-K, the information required by this item will be set forth in our definitive proxy statement for our 2013 Annual Meeting of our Shareholders and is incorporated in this Annual Report by reference.

Item 14. Principal Accountant Fees and Services

In accordance with Instruction G-(3) to Form 10-K, the information required by this item will be set forth in our definitive proxy statement for our 2013 Annual Meeting of our Shareholders and is incorporated in this Annual Report by reference.

Consistent with Section 10A-(i)-(2) of the Exchange Act, as added by Section 202 of the Sarbanes-Oxley Act of 2002, we are responsible for listing the non-audit services approved by our Audit Committee to be performed by BDO USA, LLP for the year ended December 31, 2012 and 2011, our external auditors, and OUM & Co. LLP, for the year ended December 31, 2010, respectively. Non-audit services are defined as services other than those provided in connection with an audit or a review of our financial statements. The Audit Committee has approved Grant Thornton, LLP for non-audit services related to the preparation of federal and state income tax returns, and tax advice in preparing for and in connection with such filings.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements

1. *Financial Statements.* Our financial statements and the Reports of Independent Registered Public Accounting Firm are included in Part IV of this Annual Report on the pages indicated:

2. *Financial Statement Schedules.* The following financial statement schedule is included in Item 15(a)(2): Valuation and Qualifying Accounts.

3. Exhibits. The exhibits listed in the Exhibit Index are filed with, or incorporated by reference in, this Annual Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

QUESTCOR PHARMACEUTICALS, INC.

By /s/ Don M. Bailey
Don M. Bailey
President and Chief Executive Officer

Dated: February 27, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ DON M. BAILEY Don M. Bailey	President and Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2013
/s/ MICHAEL H. MULROY Michael H. Mulroy	Senior Vice President, Chief Financial Officer, General Counsel and Corporate Secretary (Principal Financial and Accounting Officer)	February 27, 2013
/s/ VIRGIL D. THOMPSON Virgil D. Thompson	Chairman of the Board	February 27, 2013
/s/ MITCHELL BLUTT Mitchell Blutt	Director	February 27, 2013
/s/ NEAL C. BRADSHER Neal C. Bradsher	Director	February 27, 2013
/s/ STEPHEN C. FARRELL Stephen C. Farrell	Director	February 27, 2013
/s/ LOU SILVERMAN Lou Silverman	Director	February 27, 2013
/s/ SCOTT WHITCUP Scott Whitcup	Director	February 27, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
Questcor Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of Questcor Pharmaceuticals, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for each of the years then ended. In connection with our audit of the financial statements, we have also audited the financial statement schedule listed in Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Questcor Pharmaceuticals, Inc. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the years ended December 31, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Questcor Pharmaceuticals, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Orange County, California
February 27, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
Questcor Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheet of Questcor Pharmaceuticals, Inc. as of December 31, 2010, and the related consolidated statement of income, shareholders' equity, and cash flows for the year then ended. Our audit also included the financial statement schedule listed in Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the consolidated financial position of Questcor Pharmaceuticals, Inc. at December 31, 2010, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ OUM & Co. LLP

San Francisco, California
February 22, 2011

QUESTCOR PHARMACEUTICALS, INC.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2012	2011
	(In thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 80,608	$ 88,469
Short-term investments	74,705	121,680
Total cash, cash equivalents and short-term investments	155,313	210,149
Accounts receivable, net of allowance for doubtful accounts of $0 at both December 31, 2012 and 2011, respectively	61,417	27,801
Inventories, net of allowances for excess and obsolescence of $52 and $0 at December 31, 2012 and 2011, respectively.	9,909	5,226
Prepaid income taxes	—	6,940
Prepaid expenses and other current assets	4,900	3,391
Deferred tax assets	5,737	12,093
Total current assets	237,276	265,600
Property and equipment, net	2,073	1,970
Purchased technology, net	1,493	2,778
Deposits and other assets	70	56
Deferred tax assets	11,519	5,404
Total assets	$ 252,431	$ 275,808
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 13,069	$ 5,503
Accrued compensation	21,300	11,590
Sales-related reserves	37,376	34,119
Income taxes payable	7,360	—
Other accrued liabilities	11,294	4,509
Total current liabilities	90,399	55,721
Lease termination, deferred rent and other non-current liabilities	203	261
Total liabilities	90,602	55,982
Commitments and contingencies (see Note 6)		
Shareholders' equity:		
Preferred stock, no par value, 5,334,285 shares authorized; none outstanding	—	—
Common stock, no par value, 105,000,000 shares authorized; 58,544,206 and 63,645,781 shares issued and outstanding at December 31, 2012 and 2011, respectively	15,938	94,976
Retained earnings	145,851	124,886
Accumulated other comprehensive income (loss)	40	(36)
Total shareholders' equity	161,829	219,826
Total liabilities and shareholders' equity	$ 252,431	$ 275,808

See accompanying notes.

QUESTCOR PHARMACEUTICALS, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years Ended December 31,		
	2012	2011	2010
	(In thousands, except per share amounts)		
Net sales	$ 509,292	$ 218,169	$ 115,131
Cost of sales (exclusive of amortization of purchased technology)	28,555	12,459	8,013
Gross profit	480,737	205,710	107,118
Operating expenses:			
Selling and marketing	114,139	56,728	31,519
General and administrative	33,596	17,743	10,279
Research and development	34,269	16,778	10,934
Depreciation and amortization	1,219	1,044	546
Impairment of goodwill and intangibles	987	299	—
Total operating expenses	184,210	92,592	53,278
Income from operations	296,527	113,118	53,840
Other income:			
Interest and other income, net	703	627	533
Total other income	703	627	533
Income before income taxes	297,230	113,745	54,373
Income tax expense	99,555	34,154	19,302
Net income	$ 197,675	$ 79,591	$ 35,071
Change in unrealized gains or losses on available-for-sale securities, net of related tax effects.	76	(59)	37
Comprehensive Income	$ 197,751	$ 79,532	$ 35,108
Net income per share applicable to common shareholders:			
Basic	$ 3.28	$ 1.27	$ 0.56
Diluted	$ 3.14	$ 1.21	$ 0.54
Shares used in computing net income per share applicable to common shareholders:			
Basic	60,243	62,498	62,112
Diluted	63,045	66,010	64,741
Dividends declared per common share	$ 0.40	$ —	$ —

See accompanying notes.

QUESTCOR PHARMACEUTICALS, INC.

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, 2009	61,726,609	$ 67,793	$ 10,224	$ (14)	$ 78,003
Stock compensation for equity incentives and restricted common stock granted to consultants and employees	30,000	3,739	—	—	3,739
Issuance of common stock pursuant to employee stock purchase plan	149,127	732	—	—	732
Issuance of common stock upon exercise of stock options	517,936	1,210	—	—	1,210
Cancellation of shares related to tax liability	(5,208)	—	—	—	—
Income tax benefit realized from share-based compensation plans	—	1,335	—	—	1,335
Comprehensive income (loss):					
Net unrealized loss on investments	—	—	—	37	37
Net income	—	—	35,071	—	35,071
Total comprehensive income	—	—	—	—	35,108
Balances at December 31, 2010	62,418,464	74,809	45,295	23	120,127
Stock compensation for equity incentives and restricted common stock granted to consultants and employees	31,762	7,326	—	—	7,326
Issuance of common stock pursuant to employee stock purchase plan	90,650	1,358	—	—	1,358
Issuance of common stock upon exercise of stock options	1,991,857	5,224	—	—	5,224
Repurchase of common stock	(884,300)	(11,453)	—	—	(11,453)
Cancellation of shares related to tax liability	(2,652)	—	—	—	—
Income tax benefit realized from share-based compensation plans	—	17,712	—	—	17,712
Comprehensive income (loss):					
Net unrealized gain on investments	—	—	—	(59)	(59)
Net income	—	—	79,591	—	79,591
Total comprehensive income	—	—	—	—	79,532
Balances at December 31, 2011	63,645,781	94,976	124,886	(36)	219,826
Stock compensation for equity incentives and restricted common stock granted to employees, net of cancellations	752,771	15,792			15,792
Issuance of common stock pursuant to employee stock purchase plan	92,030	2,660			2,660
Issuance of common stock upon exercise of stock options	819,085	3,675			3,675
Repurchase of common stock	(6,759,861)	(108,653)	(153,177)		(261,830)
Dividends paid	—	—	(23,533)	—	(23,533)
Cancellation of shares related to tax liability	(5,600)	—			
Income tax benefit realized from share-based compensation plans		7,488			7,488
Comprehensive income (loss):					
Net unrealized loss on investments		—		76	76
Net income		—	197,675		197,675
Total comprehensive income		—			197,751
Balances at December 31, 2012	58,544,206	$ 15,938	$ 145,851	$ 40	$ 161,829

See accompanying notes.

QUESTCOR PHARMACEUTICALS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2012	2011	2010
	(In thousands)		
Cash Flows From Operating Activities			
Net income	$ 197,675	$ 79,591	$ 35,071
Adjustments to reconcile net income to net cash provided by operating activities:			
Share-based compensation expense	15,792	7,326	3,739
Deferred income taxes	241	(4,896)	(1,029)
Amortization of investments	1,330	1,250	678
Depreciation and amortization	1,219	1,044	546
Impairment of goodwill and intangibles	987	299	—
Loss on disposal of property and equipment	72	11	—
Changes in operating assets and liabilities:			
Accounts receivable	(33,616)	(16,673)	3,705
Inventories	(4,683)	(1,500)	(348)
Prepaid income taxes	6,940	(3,408)	(3,532)
Prepaid expenses and other current assets	(1,509)	(1,527)	(702)
Accounts payable	7,566	1,634	(9,052)
Accrued compensation	9,710	7,432	2,018
Sales-related reserves	3,257	12,608	6,589
Income taxes payable	7,360	—	—
Other accrued liabilities	6,780	2,526	(255)
Other non-current liabilities	(84)	(118)	(871)
Net cash provided by operating activities	219,037	85,599	36,557
Cash Flows From Investing Activities			
Purchase of short-term investments	(145,384)	(162,301)	(106,647)
Proceeds from the sale and maturities of short-term investments	191,105	112,636	62,560
Purchase of property, equipment and leasehold improvements	(1,065)	(1,823)	(713)
Changes in deposits and other assets	(14)	9	645
Net cash provided by / (used in) investing activities	44,642	(51,479)	(44,155)
Cash Flows From Financing Activities			
Income tax benefit realized from share-based compensation plans	7,488	17,712	1,335
Issuance of common stock, net	6,335	6,582	1,942
Dividends paid	(23,533)	—	—
Repurchase of common stock	(261,830)	(11,453)	—
Net cash (used in) / provided by financing activities	(271,540)	12,841	3,277
(Decrease) / increase in cash and cash equivalents	(7,861)	46,961	(4,321)
Cash and cash equivalents at beginning of year	88,469	41,508	45,829
Cash and cash equivalents at end of year	$ 80,608	$ 88,469	$ 41,508
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	$ 23	$ 16	$ 7
Cash paid for income taxes	$ 77,556	$ 25,278	$ 23,185
Supplemental disclosure of non-cash investing and financing activities:			
Capital lease obligation	$ 31	$ 34	$ —

See accompanying notes.

QUESTCOR PHARMACEUTICALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

The Company

Questcor is a biopharmaceutical company focused on the treatment of patients with serious, difficult-to-treat autoimmune and inflammatory disorders. 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 generate 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-K, 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.

- 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 support this vulnerable patient population. We believe that a significant percentage of the $262 million in free drug we have provided through the National Organization of Rare Disorders, from September 2007 through December 31, 2012, has been used to treat IS. We support the IS community through other initiatives. In February 2012, we were awarded the first-ever Corporate Citizenship Award presented by the Child Neurology Foundation. This award honors our long-term commitment to support the child neurology community as well as our specific efforts to fund education and research related to IS.

- 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."

We continue to explore additional markets for other on-label indications. In addition, we are exploring the possibility of pursuing FDA approval for additional indications not currently on the Acthar label, where there are unmet serious, difficult-to-treat autoimmune and inflammatory disorders.

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.

Our other product is Doral® (quazepam), which is indicated for the treatment of insomnia characterized by difficulty in falling asleep, frequent nocturnal awakenings, and/or early morning awakenings. We own the U.S. rights to and have immaterial sales of Doral.

Basis of Presentation

The consolidated financial statements include the accounts of Questcor and our wholly-owned subsidiary. All significant inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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, impairment of intangibles, tax liabilities and share-based compensation, among others.

Reclassifications

Certain comparative prior year amounts in the 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.

Fair Value of Financial Instruments

Our financial instruments include cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities. The carrying amounts of those financial instruments are considered to be representative of their respective fair values because of the short-term nature of those investments.

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 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 a separate component of shareholders' equity. 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 December 31, 2012 none of our investments had an other-than-temporary decline in valuation, and no other-than-temporary losses were recognized during the years ended December 31, 2012, 2011 and 2010. We base the cost of securities sold upon the specific identification method. We include realized gains and losses, if any, in the accompanying Consolidated Statements of Income and Comprehensive Income, in Interest and other income, net.

Concentration of 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.

We extend credit to our customers, which consist of CuraScript Specialty Distributor, or CuraScript SD, a specialty distributor for Acthar, and large drug wholesalers for the distribution of Doral. We have not experienced significant credit losses on our customer accounts. The relative share of our accounts receivable and gross product sales are as follows:

	Years Ended December 31,	
% of Accounts Receivable	**2012**	**2011**
CuraScript SD	100%	100%
Other customers	—%	—%
	100%	100%

	Years Ended December 31,		
% of Gross Product Sales	**2012**	**2011**	**2010**
CuraScript SD	100%	100%	99%
Other customers	—%	—%	1%
	100%	100%	100%

Inventories

We state inventories, net of allowances, at the lower of cost or market value. Cost is determined by the first-in, first-to-expire method.

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: (i) when a product is close to expiration and we do not expect it to be sold, (ii) when a product has reached its expiration date or (iii) when 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.

Property and Equipment

We record property and equipment at cost. We depreciate equipment and furniture using the straight-line method over their estimated useful lives (generally three to seven years) and leasehold improvements are amortized using the straight-line method over the estimated useful life of the asset or the lease term, whichever is shorter. We amortize equipment acquired under capital leases over the estimated useful life of the assets and include such amortization in depreciation expense.

Goodwill and Purchased Technology, net

Intangible and other long-lived assets consist of goodwill and purchased technology. We generated the goodwill from a 1999 merger and purchased technology relates to the direct costs associated with the acquisition of Doral in May 2006. Goodwill is not amortized, but instead is tested for impairment at least annually or whenever events occur or circumstances change that could indicate a possible impairment may have occurred. Any impairment loss recognized will be charged to operations. Purchased technology associated with the acquisition of products is stated at cost and amortized over the estimated life of the product.

If indicators of impairment exist, we assess the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, we measure the amount of such impairment by comparing the fair value to the carrying value.

As of September 30, 2012, we determined that a portion of the value of our purchased technology associated with the acquisition of Doral was impaired. We utilized both current and historical financial data and developed a discounted cash flow model. Based on the results of our analysis, we may not recover and therefore wrote off $1.0 million of the remaining asset value as of September 30, 2012. As of December 31, 2011, we had not yet made this determination.

During 2011, we determined the carrying value of the remaining goodwill was impaired and, therefore, charged the remaining balance to impairment of goodwill as of December 31, 2011.

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.

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 differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheets.

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. Changes in the valuation allowance based on our assessment will

result in an income tax benefit if the valuation allowance is decreased and an income tax expense if the valuation allowance is increased.

As of December 31, 2012, we have recorded a liability for unrecognized tax benefits of $1.2 million related to various federal and state income tax matters. Our policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of tax expense. For the years ended December 31, 2012, 2011 and 2010, interest and penalties were recorded for unrecognized tax benefits of $99,000, $11,000 and $166,000, respectively. As of December 31, 2012 and 2011, our accrual for interest and penalties on any unrecognized tax benefits was $6,000 and $126,000, respectively. We do not expect unrecognized tax benefits to change significantly over the next 12 months.

Revenue Recognition

We recognize revenue in accordance with Accounting Standards Codification 605, "Revenue Recognition-Products," or ASC 605, from sales of Acthar and Doral. Pursuant to ASC 605, we recognize revenue when we have persuasive evidence that an arrangement, agreement or contract exists, when title for our product and risk of loss has passed to our customers, the price we charge for our product is fixed or is readily determinable, and we are reasonably assured of collecting the amounts owed under the resulting receivable. For sales of both of our products, we do not require collateral from our customers. In order to ensure that patients who need Acthar are able to obtain it regardless of ability to pay, we also support the patient assistance programs administered by the National Organization of Rare Disorders, or NORD, and the Chronic Disease Fund. These and other patient-oriented support programs have now provided free drug with a commercial value of over $262 million to patients since September 2007 through December 31, 2012. We do not recognize any revenue from our free drug program.

In the U.S., our exclusive customer for Acthar is CuraScript SD. For our sales to CuraScript SD, a sale of Acthar occurs when CuraScript SD accepts a shipment of Acthar. We sell Acthar at a discount from our list price to CuraScript SD, which then sells Acthar primarily to approximately 12 specialty pharmacies, including CuraScript Specialty Pharmacy, or CuraScript SP, and to many hospitals. In addition to Acthar, we sell Doral to pharmaceutical wholesalers, who in turn sell Doral primarily to retail pharmacies and hospitals.

International sales of our products are immaterial.

Net Sales

The following table sets forth our net sales for the years ended December 31, 2012, 2011 and 2010, respectively (in thousands):

	Years Ended December 31,		
	2012	2011	2010
Revenue	$ 582,097	$ 268,827	$ 154,806
Less sales reserves:			
Provision for Medicaid rebates	58,205	46,481	37,159
Provision for chargebacks	467	142	106
Provision for Coverage Gap Discount	943	348	—
Provision for Tricare rebates	5,090	1,691	1,202
Co-payment assistance and other	8,100	1,996	1,208
Total sales reserves	72,805	50,658	39,675
Net sales	$ 509,292	$ 218,169	$ 115,131

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;
- Returns, 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 Center 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's regulations. For the years ended December 31, 2012, 2011 and 2010, the rebate amount equaled 100% of the Average Manufacturer Price, or AMP, of Acthar which approximates the amount we charge to CuraScript SD. During the first quarter of 2013, the Medicaid rebate amount for Acthar was reset from 100% of the AMP of Acthar to the basic rebate of 23.1% of AMP.

States have historically provided us with rebate invoices for their Medicaid Fee for Service reimbursements between 60 to 90 days after the end of the calendar quarter in which our products were provided. Certain states are taking longer to submit their initial rebate invoices for the Medicaid Managed Care Organization utilization that became rebate eligible on March 23, 2010, as a result of the enactment of the Health Care Reform Acts. We estimate the end of period liability and the sales reserve needed for these Medicaid rebates based on the following multi-step process:

- Using a predictive model, we review national Medicaid statistics as well as internal information received from our Acthar reimbursement support center and from CuraScript SP for the most recent completed quarter to develop an estimate of future Medicaid rebate invoices that we expect to receive. This includes an estimate for future Medicaid Fee for Service and Medicaid Managed Care Organization rebate invoices.
- We review the Medicaid rebate invoices received during the last 90 days and compare those invoices to the reserve that we had previously set at the end of the prior quarter. Based on this comparison and using the predictive model and other available information, which is updated quarterly, we estimate the remaining liability that we believe is still outstanding for periods prior to the most recently completed quarter.
- Based on estimated end-of-quarter inventory held at CuraScript SD, all specialty pharmacies and hospitals, we calculate the expected future rebate liability for that portion of the estimated distribution channel inventory that will eventually be used to fill prescriptions for Medicaid patients.

Using similar processes, we estimate the end of period liability and the sales reserve needed for TRICARE retail program rebates, Medicare Part D Coverage Gap Discount Program rebates, or Coverage Gap Discount rebates (commonly referred to as the Medicare Part D “donut hole”), and chargebacks due to other government programs. The Coverage Gap Discount Program took effect on January 1, 2011. We do not believe this program has or will have a material effect on our cash flows or results of operations.

Our resulting total sales reserve includes the sum of the Medicaid sales reserve, the TRICARE sales reserve, the Coverage Gap Discount reserve, the chargeback sales reserve, co-pay assistance payments, and payment discounts provided.

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 and NS 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 CuraScript SP (which is owned by CuraScript SD) 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.

Medicaid Rebates and the National Health Care Legislation

In March 2010, Congress passed, and the President signed into law, the Health Care Reform Acts. The Health Care Reform Acts contain a number of provisions that have impacted, both positively and negatively, our financial position, results of operations and cash flows. The provisions of the Health Care Reform Acts have reduced the rebate provided to states for prescriptions filled for Medicaid patients to 100% of the AMP, which approximates the amount we charge to CuraScript SD. Before the passage of the Health Care Reform Acts, the formula used to calculate the per vial rebate required us to rebate 110% of the AMP of Acthar. Effective March 23, 2010, the Health Care Reform Acts extended Medicaid rebates to Medicaid Managed Care Organization plans. Medicaid Managed Care Organization plans provide for the delivery of Medicaid health benefits and additional services through an arrangement between a state Medicaid agency and managed care organizations. Our provision for expected Medicaid rebate liability and our quarterly sales reserves have included an estimate for Medicaid Managed Care Organization usage since March 23, 2010.

Changes made by the Healthcare Reform Acts were expected to result in the coverage of 32 million uninsured individuals. Approximately half of these individuals will be covered with private sector coverage through the new state-based Health Insurance Exchanges effective in 2014. The remaining approximately 16 million uninsured individuals are expected to be covered through an expansion of the Medicaid program at the state level. Specifically, effective in 2014, individuals with incomes between the state's current eligibility level and 133% of the federal poverty level become eligible for Medicaid. The expansion will be effectuated through an increase in the Medicaid eligibility income limit from a state's current eligibility levels to 133% of the federal poverty limit. It was expected that all states would expand their Medicaid programs in this manner as there was a provision in the Healthcare Reform Acts that penalized states for not doing so. However, the Supreme Court of the United States, in *National Federation of Independent Business v. Sebelius*, struck down the penalty provision, so it is unclear how many states will expand their Medicaid programs by raising their income limit to 133% of the federal poverty level. To the extent states do expand their Medicaid programs, we expect this expanded eligibility to impact the number of adults in Medicaid more than children because many states have already set their eligibility criteria for children at or above the level designated in the Healthcare Reform Acts.

TRICARE Retail Pharmacy Programs

The Department of Defense, or DoD, TRICARE Retail Pharmacy program became effective on May 26, 2009, pursuant to section 703 of the National Defense Authorization Act of 2008. This program and its regulations require manufacturers to pay rebates, retroactive to January 28, 2008, to the DoD on products distributed to TRICARE beneficiaries through retail pharmacies. The regulation further requires that pharmaceutical products paid for by the DoD through the TRICARE Retail Pharmacy program be subject to the Federal Ceiling Price program, which requires manufacturers to provide the DoD with a refund on pharmaceutical products utilized through the TRICARE Retail Pharmacy program. As a result, we established a sales reserve of $3.5 million for TRICARE rebates as of the year ended December 31, 2009 which covered 100% of our estimated liability for the time period January 28, 2008 through December 31, 2009. In late October 2011, the United States District Court for the District of Columbia issued its decision in *Coalition for Common Sense in Government Procurement v. United States*, No. 08-996 (D.C. Dist. Ct. Oct. 25, 2011) upholding the DoD's regulation. During the year ended December 31, 2012, we paid $1.7 million for the periods January 28, 2008 through June 30, 2009. We believe our residual reserve of $1.8 million is sufficient to cover the remaining period of July 1, 2009 through December 31, 2009.

Government Chargebacks

We permit certain other government-supported entities, such as those covered by our contract with the Veterans Administration or eligible Public Health Service, or PHS, 340B entities, to purchase Acthar from CuraScript SD based on a contractual amount. Because our payment terms with CuraScript SD are approximately 30 days, we include actual chargebacks taken plus an estimate applied to the units in channel when estimating the sales reserve related to government chargebacks. Sales to the Veterans Administration and PHS 340B entities are generally immaterial to our financial position as a whole.

Co-Pay Assistance Programs

We sponsor co-pay assistance programs for Acthar patients that are administered by the Chronic Disease Fund. We account for these co-pay assistance program payments as a reduction to our revenue.

Total Sales-related Reserves

At December 31, 2012 and 2011 sales-related reserves included in the accompanying Consolidated Balance Sheets were as follows (in thousands):

	Years Ended December 31,	
	2012	2011
Medicaid rebates	$ 33,921	$ 29,874
Tricare rebates	3,222	4,095
Coverage Gap Discount Program rebates	194	100
Government chargebacks	38	40
Other discounts	1	10
Total	$ 37,376	$ 34,119

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

	Years Ended December 31,		
	2012	2011	2010
Balance at January 1	$ 29,874	$ 17,384	$ 11,070
Actual Medicaid rebate payments for sales made in prior year	(18,449)	(9,104)	(7,929)
Actual Medicaid rebate payments for sales made in current year	(35,709)	(24,887)	(22,916)
Current Medicaid rebate provision for sales made in prior year	1,153	8	664
Current Medicaid rebate provision for sales made in current year	57,052	46,473	36,495
Balance at December 31	$ 33,921	$ 29,874	$ 17,384

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

	Years Ended December 31,		
	2012	2011	2010
Balance at January 1	$ 4,095	$ 4,125	$ 3,530
Actual Tricare rebate payments for sales made in prior year	(2,296)	(642)	—
Actual Tricare rebate payments for sales made in current year	(3,667)	(1,079)	(607)
Current Tricare rebate provision for sales made in prior year	—	1	—
Current Tricare rebate provision for sales made in current year	5,090	1,690	1,202
Balance at December 31	$ 3,222	$ 4,095	$ 4,125

Product Exchanges

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.

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 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 December 31, 2012, there was $19.1 million of total unrecognized compensation cost related to unvested restricted stock awards and $27.3 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 2.4 years.

Our share-based compensation plans are discussed further in Note 5. Preferred Stock and Shareholders' Equity.

Stock Repurchases

We account for common stock repurchases by charging the cost of shares acquired to the common stock account in the Consolidated Statements of Shareholders' Equity.

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 years ended December 31, 2012, 2011 and 2010 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).

	Years Ended December 31,		
	2012	2011	2010
Net income applicable to common shareholders	$ 197,675	$ 79,591	$ 35,071
Shares used in computing net income per share applicable to common shareholders:			
Basic	60,243	62,498	62,112
Effect of dilutive potential common shares:			
Stock options	2,744	3,497	2,614
Restricted stock	58	15	15
Diluted	63,045	66,010	64,741
Net income per share applicable to common shareholders:			
Basic	$ 3.28	$ 1.27	$ 0.56
Diluted	$ 3.14	$ 1.21	$ 0.54

The following table presents the amounts excluded from the computation of diluted net income per share applicable to common shareholders for the years ended December 31, 2012, 2011 and 2010 as the inclusion of these securities would have been anti-dilutive (in thousands):

	Years Ended December 31,		
	2012	2011	2010
Stock options	1,189	82	309

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. 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):

	Years Ended December 31,		
	2012	2011	2010
Net income applicable to common shareholders	$ 197,675	$ 79,591	$ 35,071
Less: Dividends	23,682	—	—
Undistributed earnings	$ 173,993	$ 79,591	$ 35,071
Common stock undistributed earnings	173,325	79,591	35,071
Unvested restricted stock award undistributed earnings	668	—	—
Total undistributed earnings	$ 173,993	$ 79,591	$ 35,071

Segment Information

We have determined that we operate in one business segment.

Subsequent Events

On January 18, 2013, we acquired 100% of the issued and outstanding shares of BioVectra Inc for $50.8 million. BioVectra could also receive additional cash consideration, based on BioVectra's financial results over the next three years. The contingent payments could result in the payment of up to an additional C$50.0 million ($49.1 million in U.S. dollars as of February 21, 2013). BioVectra is a manufacturer to several of the pharmaceutical industry's leading pharmaceutical companies. BioVectra manufactures the API in Acthar. We intend to have BioVectra continue to operate independently under its existing management team for the foreseeable future.

The initial accounting for the business combination is incomplete at the time the financial statements were issued due to the fact that the valuations of assets, liabilities, and contingencies are ongoing.

During the first quarter of 2013, the Medicaid rebate amount for Acthar was reset from 100% of the AMP of Acthar to the basic rebate of 23.1% of AMP.

In February 2013, we announced an increase in our quarterly cash dividend from $0.20 per share to $0.25 per share, with such increase occurring with the quarterly cash dividend to be paid in the second quarter of 2013.

We evaluated subsequent events that have occurred after December 31, 2012, and through the issuance date, and determined that there were no additional events or transactions occurring during this reporting period that require recognition or disclosure in our consolidated financial statements.

Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2012-02 “Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment,” or ASU No. 2012-02. ASU No. 2012-02 applies to testing the decline in realizable value of indefinite-lived intangibles other than goodwill, and applies to all public, private, and not-for-profit organizations. ASU No. 201-02 allows an organization the option of first assessing qualitative factors to determine if a quantitative impairment test of the indefinite-lived intangible asset is necessary. If the qualitative assessment reveals that it’s “more likely than not” that the asset is impaired, a calculation of the asset’s fair value is required. Otherwise, no quantitative calculation is necessary. FASB’s previous guidance required an organization to compare the fair value of an indefinite-lived intangible asset with its carrying amount at least annually to test for impairment. If the asset’s carrying amount exceeded its fair value, the difference was recognized as an impairment loss. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after Sept. 15, 2012. Early adoption is permitted. We plan to adopt ASU No. 2012-02 for fiscal year December 31, 2013 and do not anticipate a material effect on our financial position or results of operations.

2. Balance Sheet Details

Inventories

We state inventories, net of allowances, at the lower of cost (first-in, first-to-expire) or market. Inventories, net of allowances, at December 31, 2012 and 2011 consist of the following (in thousands):

	Years Ended December 31,	
	2012	2011
Raw materials	$ 9,271	$ 4,841
Finished goods	690	385
Less allowance for excess and obsolete inventories	(52)	—
	$ 9,909	$ 5,226

Property and Equipment

Equipment, furniture and leasehold improvements and related accumulated depreciation and amortization are as following (in thousands):

	Years Ended December 31,	
	2012	2011
Laboratory equipment	$ —	$ 8
Manufacturing equipment	822	740
Office equipment, furniture and fixtures	2,644	2,169
Leasehold improvements	1,349	946
	4,815	3,863
Less accumulated depreciation and amortization	(2,742)	(1,893)
	$ 2,073	$ 1,970

Total depreciation and amortization expense amounted to $0.9 million, $0.7 million and $0.2 million for the years ended December 31, 2012, 2011 and 2010, respectively.

3. Short-Term Investments and Fair Value Measurements

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

December 31, 2012	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Estimated Fair Value
Cash equivalents	$ 7,740	$ —	$ —	$ 7,740
Short-term investments:				
Certificates of deposit	$ 720	$ 2	$ —	$ 722
Corporate bonds	47,857	29	(8)	47,878
U.S. Government-sponsored enterprises	24,699	13	—	24,712
Municipal bonds	1,395	1	(3)	1,393
	$ 74,671	$ 45	$ (11)	$ 74,705
December 31, 2011				
Cash equivalents	$ 6,423	$ —	$ —	$ 6,423
Short-term investments:				
Certificates of deposit	$ 2,240	$ 2	$ —	$ 2,242
Corporate Bonds	66,378	30	(69)	66,339
Government-sponsored enterprises	42,764	6	(16)	42,754
Municipal bonds	10,343	5	(3)	10,345
	$ 121,725	$ 43	$ (88)	$ 121,680

The amortized cost and fair value of available-for-sale securities at December 31, 2012, by contractual maturity, are as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 34,084	$ 34,101
Due after one through two years	40,587	40,604
Total available-for-sale securities	$ 74,671	$ 74,705

As of December 31, 2012, the average contractual maturity of our short-term investments was approximately 14 months.

As of December 31, 2012, 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
Certificates of deposit	$ —	$ —	$ —	$ —
Corporate bonds	(6)	9,509	(2)	2,600
U.S. Government-sponsored enterprises	—	—	—	—
Municipal bonds	—	322	(3)	203
Total	$ (6)	$ 9,831	$ (5)	$ 2,803

The gross unrealized losses reported above for December 31, 2012 were caused by general fluctuations in market interest rates from the respective purchase date of these securities through December 31, 2012. 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.

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 December 31, 2012, all of our assets and liabilities are valued using Level 1 inputs.

Assets measured at fair value on a recurring basis are summarized below (in thousands):

	Basis of Fair Value Measurements			
	Balance at December 31, 2012	Level 1	Level 2	Level 3
Cash equivalents	$ 7,740	$ 7,740	$ —	$ —
Certificates of deposit	722	722	—	—
Corporate bonds	47,878	47,878	—	—
Government-sponsored enterprises	24,712	24,712	—	—
Municipal bonds	1,393	1,393	—	—
Total	$ 82,445	$ 82,445	$ —	$ —

Investment securities are exposed to various risks, such as interest rate, market and credit. 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.

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). There were no assets or liabilities measured at fair value on a nonrecurring basis during the periods ended December 31, 2012 and 2011, other than our purchased technology and goodwill associated with a 1999 transaction, which were impaired during the years ended December 31, 2012 and 2011, respectively. The fair value of our purchased technology at December 31, 2012 was $1.5 million and the net realizable value of our goodwill December 31, 2011 was zero.

4. Purchased Technology and Goodwill

Purchased technology consists of the following (in thousands):

	Years Ended December 31,	
	2012	2011
Purchased technology	$ 4,386	$ 4,386
Less accumulated amortization	(2,893)	(1,608)
Total	$ 1,493	$ 2,778

Purchased technology at December 31, 2012 and 2011 consists of our acquisition costs for Doral. At September 30, 2012, we determined that a portion of the value of our purchased technology associated with the acquisition of Doral was impaired. We utilized both current and historical financial data and developed a discounted cash flow model. This is a Level 3 measurement in the Fair Value Hierarchy. Based on the results of our analysis, we may not recover and wrote off $1.0 million of the remaining asset value as of September 30, 2012. As of December 31, 2011, we had not yet made this determination. Amortization expense for purchased technology totaled $1.3 million (which included an impairment charge of $1.0 million), $0.3 million and $0.3 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Goodwill consists of the following (in thousands):

	Years Ended December 31,	
	2012	2011
Goodwill	$ 1,023	$ 1,023
Less accumulated amortization (pre-2011 amortization) and impairment	(1,023)	(1,023)
Total	$ —	$ —

As of December 31, 2011, we determined the carrying value of the remaining goodwill was impaired and, therefore, charged the remaining balance to impairment of goodwill. This is a Level 3 measurement in the Fair Value Hierarchy.

5. Preferred Stock and Shareholders' Equity

Preferred Stock

At December 31, 2012 and 2011, we had 5,334,285 shares of Preferred Stock authorized, no par value, and no shares of Preferred Stock were issued and outstanding.

Common Stock

The holders of outstanding shares of our common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the board of directors out of assets legally available therefore, subject to the payment of preferential and participating dividends with respect to any preferred stock that may be outstanding. In the event of our liquidation, dissolution and winding-up of our business, the holders of our outstanding common stock are entitled to share ratably in all assets available for distribution after payment of all our liabilities, subject to the rights of any outstanding shares of preferred stock. The holders of our common stock are entitled to one vote per share.

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.

During the year ended December 31, 2011, we used $11.5 million of our cash to repurchase 884,300 shares of our common stock. During the year ended December 31, 2012, we used $261.8 million of our cash to repurchase 6,759,861 shares of our common stock. Under this share repurchase plan, we have repurchased a total of 16.0 million shares of our common stock for $309.9 million through December 31, 2012, at an average price of $19.37 per share. As of December 31, 2012, there are approximately 6.3 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 22.2 million for $340.3 million at an average price of $15.36 per share.

Employee Stock Purchase Plan

Our 2003 Employee Stock Purchase Plan, or ESPP, provides our employees the opportunity to purchase our common stock through accumulated payroll deductions. The ESPP was originally adopted by the Board of Directors on January 24, 2003 and approved by our shareholders on May 12, 2003. The ESPP was amended by the Board of Directors on February 27, 2006 and was approved by our shareholders on May 18, 2006.

Currently the ESPP has 3,500,000 shares available for issuance, including shares previously issued. In April 2008, our Board further amended the ESPP to reduce the maximum offering period under the ESPP from 27 months to 6 months and to no longer allow employees the ability to increase their payroll contributions to the ESPP during an offering period.

The purpose of the ESPP is to provide all of our employees with an opportunity to purchase our common stock through accumulated payroll deductions. Any person who is employed by us on the offering date, for at least 20 hours per week and more than five months in any calendar year, is eligible to participate in the ESPP. Under the ESPP, eligible employees could have up to 15% of their earnings withheld, subject to certain maximums, to be used to purchase shares of our common stock. Generally, the purchase price per share at which shares are sold under the ESPP is the lower of 85% of the fair market value of a share of our common stock on the first day of each offering period or 85% of the fair market value of a share of our common stock on the last day of each three month purchase period. December 31, 2012, 2011 and 2010, 92,030, 90,650 and 149,127 shares, respectively, had been issued to participants.

ESPP activity during 2012 was as follows:

	Number of Shares	Weighted-Average Fair Value
Available at December 31, 2011	774,110	
Purchases	(92,030)	$ 28.91
Shares added to the Plan	—	
Available at December 31, 2012	682,080	

We use the Black-Scholes option–pricing model to estimate the fair value of the option element related to employees' purchases under the ESPP included in the total share-based compensation expense recorded for the years ended December 31,

2012, 2011 and 2010. The determination of fair value using the Black-Scholes option-pricing model is affected by our stock price as well as similar assumptions used to value our stock-based awards.

- Volatility is based on the historical volatility of our common stock;
- Interest rate is based on the U.S. Treasury yield;
- Expected term represents the life of the option element; and
- Expected dividend yield is based on anticipated future dividends.

	Years Ended December 31,		
	2012	2011	2010
Weighted average volatility	110%	53%	54%
Risk-free interest rate	0.1%	0.1%	0.1%
Expected term (in years)	0.25	0.25	0.25
Expected dividend yield	1.4%	—%	—%

Stock Compensation Plans

Stock Options

We have options outstanding to purchase shares of our common stock under the following plans:

- 2006 Equity Incentive Award Plan that provides for the grant of equity incentives to employees, members of our board of directors, and consultants;
- 1992 Employee Stock Option Plan that provided for the grant of stock options to employees, members of our board of directors, and consultants; and
- 2004 Non-Employee Directors' Equity Incentive Plan that provides for the grant of equity incentives to non-employee members of our board of directors.

In May 2006, our shareholders approved the adoption of the 2006 Equity Incentive Award Plan. Upon the adoption of the 2006 Equity Incentive Award Plan, we ceased grants under our 1992 Employee Stock Option Plan. The 2006 Equity Incentive Award Plan provides for the grant of incentive stock options, non-qualified stock options, restricted stock grants, unrestricted stock grants, stock appreciation rights, restricted stock units and dividend equivalents. Equity incentives under the 2006 Equity Incentive Award Plan and the 1992 Employee Stock Option Plan generally include four year vesting periods, an exercise price that equals the fair market value of our common stock on the date of grant, and maximum terms of ten years. Restricted stock awards entitle the recipient to full dividend and voting rights. Non-vested shares are restricted as to disposition and subject to forfeiture under certain circumstances. In May 2011, the shareholders approved an amendment to the 2006 Equity Incentive Award Plan to increase the number of shares of common stock authorized for issuance by 3,500,000 shares. The aggregate number of shares of common stock authorized for issuance under the 2006 Equity Incentive Award Plan is 9,750,000 shares.

Our 2004 Non-Employee Directors' Equity Incentive Plan provides for the granting of 25,000 stock options to purchase common stock upon appointment as a non-employee director and 15,000 stock options each January thereafter for continuing service upon reappointment. Such stock option grants vest over four years. In addition, 10,000 stock options are granted to members of one or more committees of the board of directors and an additional 7,500 stock options to the chairs of one or more committees. Such stock option grants are fully vested at the time of grant. As originally approved by shareholders, such option grants had an option exercise price equal to 85% of the fair market value on the date of grant. However, in May 2004, our board of directors approved an amendment to the 2004 Non-Employee Directors' Equity Incentive Plan to provide that all option grants be made at an exercise price equal to 100% of the fair market value of our common stock on the date of grant. The maximum term of the stock options granted is ten years. Under the terms of the 2004 Non- Employee Directors' Equity Incentive Plan, 1,250,000 shares of our common stock were authorized for grant. In May 2011, with the amendment of the 2006 Equity Incentive Award Plan, we ceased grants under our 2004 Non-Employee Directors' Equity Incentive Plan. All future grants to non-employee directors will be issued under the 2006 Equity Incentive Award Plan out of authorized shares.

As of December 31, 2012, a total of 3,461,021 shares of common stock were reserved for issuance under both the 2006 Equity Incentive Award Plan and the 2004 Non-Employee Directors' Equity Incentive Plan. A summary of our stock option activity and related information during 2012 follows:

	Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
			(In years)	(In thousands)
Outstanding at December 31, 2011	5,463,790	$ 8.08		
Granted	1,899,909	36.16		
Exercised	(819,085)	4.49		
Forfeited or expired	(97,996)	27.30		
Outstanding at December 31, 2012	6,446,618	$ 16.52	7.36	$ 84,555,873
Options vested and expected to vest at December 31, 2012	6,436,236	$ 16.50	7.36	$ 84,513,187
Exercisable at December 31, 2012	3,515,941	$ 7.74	6.27	$ 67,605,888

Aggregate intrinsic value is the sum of the amounts by which the quoted market price of our stock exceeded the exercise price of the stock options at December 31, 2012 for those stock options for which the quoted market price was in excess of the exercise price ("in-the-money options"). The total intrinsic value of stock options exercised was $29.9 million, $57.5 million and $3.7 million for the years ended December 31, 2012, 2011 and 2010, respectively. Cash received for the exercise of options was $3.7 million for the year ended December 31, 2012.

Restricted Stock Awards

During the years ended December 31, 2012, 2011 and 2010, we granted a total of 777,524, 31,762, and 30,000 shares of restricted common stock, respectively, to employees under the 2006 Equity Incentive Award Plan. Restrictions on these shares will expire and related charges are being amortized as earned over the vesting period of four years.

We base the amount of unearned compensation recorded on the market value of the shares on the date of issuance. Expenses related to the vesting of restricted stock were $1.8 million, $163,000 and $50,000 for the years ended December 31, 2012, 2011 and 2010, respectively. Total fair value of awards vested were $670,000, $115,000 and $144,000 for the years ended December 31, 2012, 2011 and 2010, respectively. At December 31, 2012, there was approximately $19.1 million of unamortized compensation cost related to restricted stock awards, which we expect to recognize ratably over the vesting period of four years.

Restricted stock activity during 2012 was as follows:

	Number of Shares	Weighted-Average Fair Value
Non-vested shares at December 31, 2011	54,262	$ 18.05
Granted	777,524	$ 26.86
Vested	(17,554)	$ 17.77
Forfeited or expired	(24,753)	$ 28.09
Non-vested shares at December 31, 2012	789,479	$ 26.42

Fair Value of Stock-Based Awards

The weighted average fair value of equity instruments granted during 2012, 2011 and 2010 was as follows:

	Weighted Average Fair Value		
	2012	2011	2010
Stock options	$ 36.16	$ 16.89	$ 7.15
ESPP Purchases	28.91	14.98	4.91
Restricted Stock	26.86	27.28	5.02

At December 31, 2012, there was $19.1 million of total unrecognized compensation cost related to unvested restricted stock awards and $27.3 million of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted-average period of 2.4 years.

We use the Black-Scholes option–pricing model to estimate the fair value of stock-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 exercise behaviors.

- Volatility is based on the historical volatility of our common stock. During 2010, we reviewed our methodology for calculating volatility and, in doing so we shortened the look-back period to represent the time period following the implementation of our Acthar-centric pricing strategy in late 2007. This resulted in a lower volatility that, we believe, is a better representation of our current market condition.
- Interest rate is based on the U.S. Treasury yield.
- Expected term was based on the historical experience of similar awards, giving consideration to the contractual terms of the share-based awards, vesting schedules and the expectations of future employee behavior.
- Expected dividend yield is based on future anticipated dividend rates.

The total number of stock option awards expected to vest is adjusted by estimated forfeiture rates. The weighted average assumptions used for the years ended December 31, 2012, 2011 and 2010 and the resulting estimates of weighted average fair value per share of options granted during those periods are as follows:

	Years Ended December 31,		
	2012	2011	2010
Volatility	72%	61%	65%
Interest rate	0.3-0.5	0.5-2.4	1.0-2.1
Forfeiture rate	0.32%	0.22%	11.95%
Expected term (in years)	3.6	3.4	4.4
Expected dividend yield	3.2%	—	—

Share-based compensation expense related to employees and non-employee members of the board of directors has been included in the accompanying Consolidated Statements of Income for the years ended December 31, 2012, 2011 and 2010 as follows (in thousands):

	Years Ended December 31,		
	2012	2011	2010
Selling and marketing	$ 5,360	$ 4,236	$ 952
General and administrative	7,467	1,884	1,832
Research and development	2,965	1,206	955
Total share-based compensation expense	$ 15,792	$ 7,326	$ 3,739

6. Indemnifications, Commitments and Contingencies

Indemnifications

As permitted under California law and in accordance with our Bylaws, we indemnify our officers and directors and certain of our employees for certain events or occurrences while the officer, director or employee 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 had no liabilities recorded for these agreements as of December 31, 2012 and 2011.

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.

Leases

We lease office facilities under various operating lease agreements, with remaining terms that extend to May 2018. We have also entered into automobile and office equipment leases, with remaining terms that extend to 2017. As of December 31, 2012, we have made approximately $70,000 in cash deposits related to operating leases. Provisions of the facilities leases provide for abatement of rent during certain periods and escalating rent payments during the term. Rent expense is recognized on a straight-line basis over the term of the lease. Accordingly, rent expense recognized in excess of rent paid is reflected as deferred rent. Rent expense on the facilities and equipment during 2012, 2011 and 2010 was $1.0 million, $1.0 million and $0.5 million, respectively.

Future annual minimum payments under operating leases are as follows (in thousands):

Years Ending December 31,		
2013	$	3,309
2014		2,711
2015		1,414
2016		946
2017		900
Thereafter		113
Total	$	9,393

- As of December 31, 2012 we leased space in three buildings with lease terms expiring in 2014, 2017 and 2018. We have also entered into various office equipment leases and automobile leases, the terms of which are typically three years. Annual rent expense for all of our facilities, equipment and automobile leases for the year ended December 31, 2012 was approximately $3.2 million.

    - We lease 30,000 square feet of laboratory and office space in Hayward, California under a master lease that expires in May 2018. This facility is occupied by our Commercial Development, Sales and Marketing, Medical Affairs, Contract Manufacturing, Quality Control and Quality Assurance departments.

    - We lease 15,600 square feet of office space in Ellicott City, Maryland under a lease agreement that expires in October 2017. This facility is occupied by our Product Development and Regulatory Affairs departments.

    - We lease 7,900 square feet of office space in Anaheim, California under a lease agreement that expires in October 2014. This facility is occupied by our Executive, Finance and Administration departments, and serves as our corporate headquarters.

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. We are defending this lawsuit vigorously. In October 2012, a Judge of the Superior Court denied Glenridge summary judgment on its claims. In February 2013, a Judge of the Superior Court granted Glenridge's unopposed motion to amend its complaint.

In August 2012, we filed a separate lawsuit in the Superior Court of California, Orange County, against the three principals of Glenridge, as well as Glenridge, challenging the enforceability of our agreement with Glenridge, and alleging breach of fiduciary duty, as well as aiding and abetting of the breach, by the principals. In November 2012, a Judge of the Superior Court of California, Orange County, transferred this lawsuit to the Superior Court of California, Santa Clara County. In February 2013, a Judge of the Superior Court denied Glenridge's motion to stay this lawsuit in favor of the accounting lawsuit described in the immediately preceding paragraph. We have filed a motion for summary judgment on issues related to the fiduciary duty claim. A hearing on the motion is scheduled in May 2013.

USAO Investigation

On September 21, 2012, we became aware of an investigation by the United States Attorney's Office for the Eastern District of Pennsylvania (the "USAO") 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 are cooperating with the USAO 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 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 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, 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 January 4, 2013, the district court issued an order appointing the West Virginia Investment Management Board and Plumbers & Pipefitters National Pension Fund as Lead Plaintiffs in the consolidated securities action. We expect the appointed Lead Plaintiffs to file a consolidated amended complaint for the consolidated securities action on or before March 5, 2013.

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)*. We expect the plaintiffs to file a consolidated amended complaint for the consolidated shareholder derivative action on or before March 19, 2013.

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 *Norton* case 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, 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 *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. In January 2013, a Judge of the Superior Court held a hearing with regard to our motion to stay these state shareholder derivative actions in favor of the putative federal securities class action and federal shareholder derivative action. On February 19, 2013, the court issued a final ruling granting our motion to stay the state derivative actions until the putative federal securities and federal derivative actions are resolved.

We believe that the probability of unfavorable outcome or loss related to this litigation and an estimate of the amount or range of loss, if any, from an unfavorable outcome are not determinable at this time.

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 stockholders 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.

Commitments

We have an agreement with BioVectra to produce the API used in Acthar. The agreement requires the production of a minimum number of kilograms of the Acthar API during the term. The agreement terminated on December 31, 2007 and was extended in January 2008 through December 2010. During the fiscal year ended December 31, 2010, we entered into a new agreement with BioVectra, which terminates 12 months after written notice by either party. Under the terms of the new agreement, we are obligated to purchase a minimum amount of Acthar API and will not purchase in excess of a certain amount of Acthar API per year. We have been in compliance with the terms of our agreement with BioVectra. On January 18, 2013, we acquired 100% of the issued and outstanding shares of BioVectra Inc.

During the year ended December 31, 2011, we entered into an agreement with CSL Behring LLC, or CSL Behring, to provide potency and toxicity testing on Acthar prior to releasing the product for commercial distribution. Beginning on January 1, 2012, the agreement provides for a maximum number of tests to be performed each year. Tests performed in excess of the maximum are to be paid on a per test basis. We have been in compliance with the terms of our agreement with CSL Behring.

We pay an annual royalty to the prior owner of Acthar equal to one percent 1% of net sales in excess of $10 million. We also incur quarterly payments to Glenridge Pharmaceuticals, LLC under a purported Royalty Agreement and Release equal to three percent 3% of net sales. See above under "Litigation." Royalty expense for the years ended December 31, 2012, 2011 and 2010 was $20.2 million, $8.5 million and $4.6 million, respectively, which is included in Cost of Sales in the accompanying Consolidated Statements of Income and Comprehensive Income.

7. Income Taxes

The components of the income tax expense are as follows (in thousands):

	Years Ended December 31,		
	2012	2011	2010
Current:			
Federal	$ 97,267	$ 38,575	$ 18,881
State	2,047	475	1,450
	99,314	39,050	20,331
Deferred:			
Federal	344	(4,782)	(2,128)
State	(103)	(114)	1,099
	241	(4,896)	(1,029)
Total income tax expense	$ 99,555	$ 34,154	$ 19,302

A reconciliation between the U.S. statutory tax rate and our effective tax rate is as follows:

	Years Ended December 31,		
	2012	2011	2010
Tax at U.S. statutory rate	35 %	35 %	35 %
State income taxes, net	0.7 %	0.2 %	2.1 %
Change in valuation allowance	— %	— %	1.7 %
Orphan drug tax credit	— %	(2.1)%	— %
Other	(2.2)%	(3.1)%	(3.3)%
Effective tax rate	33.5 %	30.0 %	35.5 %

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amount used for income tax purposes, as well as net operating loss and tax credit carryforwards. Significant components of our deferred tax assets are as follows (in thousands):

	Years Ended December 31,	
	2012	2011
Deferred tax assets:		
Net operating loss carryforwards	$ 2,117	$ 2,502
Research and development credits	92	379
Sales-related reserves	5,803	12,018
Stock-based compensation	8,006	3,479
Other, net	2,219	64
Total deferred tax assets	18,237	18,442
Valuation allowance	(981)	(945)
Net deferred taxes	$ 17,256	$ 17,497

We recognize valuation allowances on deferred tax assets reported if, based on the weight of the evidence, we believe that it is “more likely than not” that some or all of our deferred tax assets will not be realized. We evaluate deferred tax assets quarterly to assess the likelihood of realization, which is ultimately dependent upon our generating future taxable income. Our valuation allowance increased $36,000 in 2012 and $29,000 in 2011 . This allowance was associated with our California net operating losses and research and development tax credits which we do not anticipate to fully utilize and therefore have established a valuation allowance on those deferred tax assets.

At December 31, 2012, we had federal and state net operating loss carryforwards of $3.4 million and $15.9 million, respectively, and California research and development tax credits of $0.1 million, respectively. All federal net operating loss carryforwards are subject to annual limitations as a result of federal ownership change limitations, and will be available from 2012 through 2018, under those limitations.

The federal and state net operating loss carryforwards and the federal research and development credit carryforwards expire at various dates beginning in the years 2013 through 2019, if not utilized. In addition, as of December 31, 2012, the 1994 - 2011 tax years remain subject to examination in the U.S. and various state tax jurisdictions due to net operating losses that are being carried forward. The Company is currently undergoing Federal and California exams, however the Company does not believe that such exams will have a material adverse effect on the consolidated financial statements.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	Years Ended December 31,	
	2012	2011
Balance at beginning of year	$ 1,274	$ 1,243
(Decrease) / increase of unrecognized tax benefits taken in prior years	(437)	(676)
Increase of unrecognized tax benefits related to current year	386	707
Balance at end of year	$ 1,223	$ 1,274

The unrecognized tax benefits, if recognized in full, would reduce our income tax expense by $1.2 million. Our policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of tax expense. For the years ended December 31, 2012, 2011 and 2010, interest and penalties were recorded for unrecognized tax benefits of $99,000, $11,000 and $166,000, respectively. As of December 31, 2012 and 2011, our accrual for interest and penalties on any unrecognized tax benefits was $6,000 and $126,000, respectively. We do not expect unrecognized tax benefits to change significantly over the next 12 months.

8. Defined Contribution Plan

We have a defined-contribution savings plan under Section 401(k) of the Internal Revenue Code of 1986, as amended, covering substantially all full-time U.S. employees. Participating employees may contribute up to 60% of their eligible compensation up to the annual Internal Revenue Service contribution limit. This plan allows for discretionary contributions by us. Employer matching contributions for the years ended December 31, 2012, 2011 and 2010 were $1.0 million, $0.3 million and zero, respectively.

9. Quarterly Results of Operations (unaudited)

The following table sets forth a summary of our unaudited quarterly operating results for each of the last eight quarters in the period ended December 31, 2012. We have derived this data from our unaudited consolidated interim financial statements that, in our opinion, have been prepared on substantially the same basis as the audited financial statements contained elsewhere in this report and include all normal recurring adjustments necessary for a fair presentation of the financial information for the periods presented. These unaudited quarterly results should be read in conjunction with our financial statements and notes thereto included elsewhere in this report. The operating results in any quarter are not necessarily indicative of the results that may be expected for any future period (in thousands, except earnings per share).

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Quarter Ended			
	12/31/2012	9/30/2012	6/30/2012	3/31/2012
Net sales	$ 160,533	$ 140,339	$ 112,452	$ 95,968
Cost of sales	9,157	7,499	6,379	5,520
Income tax expense	32,987	27,836	19,724	19,008
Net income	61,940	55,687	41,505	38,543
Net income applicable to common shareholders	61,940	55,687	41,505	38,543
Net income per share applicable to common shareholders (1):				
Basic	$ 1.07	$ 0.95	$ 0.68	$ 0.61
Diluted	$ 1.03	$ 0.91	$ 0.65	$ 0.58
Dividend declared per common share	$ 0.20	$ 0.20	$ —	$ —

	Quarter Ended			
	12/31/2011	9/30/2011	6/30/2011	3/31/2011
Net sales	$ 75,535	$ 59,821	$ 45,980	$ 36,833
Cost of sales	4,013	3,718	2,856	1,872
Income tax expense	11,240	10,846	6,669	5,399
Net income	31,641	22,852	13,874	11,224
Net income applicable to common shareholders	31,641	22,852	13,874	11,224
Net income per share applicable to common shareholders (1):				
Basic	$ 0.50	$ 0.37	$ 0.22	$ 0.18
Diluted	$ 0.48	$ 0.35	$ 0.21	$ 0.17

(1) Due to the use of the weighted average shares outstanding for each quarter for computing earnings per share, the sum of the quarterly per share amounts may not equal the per share amount for the year.

FINANCIAL STATEMENT SCHEDULES (ITEM 15(a)(2))
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
Years Ended December 31, 2012, 2011 and 2010

	Balance at Beginning of Period	Additions/ (Deductions) Charged to Income	Deductions and Write-Offs	Balance at End of Period
		(In thousands)		
Reserves for uncollectible accounts				
December 31, 2012	$ —	$ —	$ —	$ —
December 31, 2011	$ 25	$ —	$ 25	$ —
December 31, 2010	$ 77	$ 51	$ 103	$ 25
Reserves for obsolete and excess inventories				
December 31, 2012	$ —	$ 52	$ —	$ 52
December 31, 2011	$ 158	$ —	$ 158	$ —
December 31, 2010	$ —	$ 158	$ —	$ 158
Sales-related reserves				
December 31, 2012	$ 34,119	$ 64,707	$ 61,450	$ 37,376
December 31, 2011	$ 21,511	$ 50,658	$ 38,050	$ 34,119
December 31, 2010	$ 14,922	$ 38,376	$ 31,787	$ 21,511

All other financial statement schedules are omitted because the information described therein is not applicable, not required or is furnished in the financial statements or notes thereto.

EXHIBIT INDEX

	Description
2.1(1)	Merger agreement entered into August 4, 1999, by and among Cyprus Pharmaceutical Corporation, a California corporation ("Parent"), Cyprus Acquisition Corporation, a Delaware corporation and a wholly owned subsidiary of Parent, and RiboGene, Inc., a Delaware corporation.
3.1(2)	Amended and Restated Articles of Incorporation of the Company.
3.5(21)	Amended and Restated Bylaws of Questcor Pharmaceuticals, Inc, dated as of October 20, 2009.
10.1(3)	Forms of Incentive Stock Option and Non-statutory Stock Option.
10.2(4)	1992 Employee Stock Option Plan, as amended.**
10.3(5)	1993 Non-employee Directors' Equity Incentive Plan, as amended and related form of Nonstatutory Stock Option.**
10.5(6)	Asset Purchase Agreement dated July 27, 2001 between the Company and Aventis Pharmaceuticals Products, Inc.†
10.6(6)	First Amendment to Asset Purchase Agreement dated January 29, 2002, between the Company and Aventis Pharmaceuticals Products, Inc.†
10.27(7)	2004 Non-Employee Directors' Equity Incentive Plan.**
10.30(8)	Letter Agreement between the Company and Steve Cartt dated March 7, 2005.**
10.31(8)	Letter Agreement between the Company and Steve Cartt dated March 8, 2005.**
10.40(9)	Asset Purchase Agreement dated October 17, 2005 by and between Questcor Pharmaceuticals, Inc. and QOL Medical LLC.
10.45(11)	Amended and Restated 2006 Equity Incentive Award Plan.**
10.46(12)	Form of Incentive Stock Option Agreement under the 2006 Equity Incentive Award Plan.
10.47(12)	Form of Non-Qualified Stock Option Agreement under the 2006 Equity Incentive Award Plan.
10.48(12)	Form of Restricted Stock Award Agreement under the 2006 Equity Incentive Award Plan.
10.58(13)	Amended Change of Control Letter Agreement between the Company and Stephen L. Cartt dated February 13, 2007.**
10.63(13)	Change of Control Letter Agreement between the Company and David J. Medeiros dated February 13, 2007.**
10.65(14)	Form of Performance-Based Vesting Stock Option Agreement under the 2006 Equity Incentive Award Plan.
10.66(15)	Severance Agreement between the Company and David J. Medeiros dated July 16, 2007.**

10.68(16)	Form of Option Agreement under the 2004 Non-Employee Directors' Equity Incentive Plan for Director Options.
10.69(16)	Form of Option Agreement under the 2004 Non-Employee Directors' Equity Incentive Plan for Committee Options.
10.70(17)	Amended and Restated 2003 Employee Stock Purchase Plan.**
10.77(20)	Amended and Restated Employment Agreement between the Company and Don Bailey dated December 19, 2008.**
10.78(20)	Form of 409A Letter Amendment to Officers' Severance, Change in Control and Employment Agreements.**
10.81(21)	Offer Letter, by and between Questcor Pharmaceuticals, Inc. and Dr. David Young, Pharm.D., Ph.D., dated October 15, 2009.**
10.82(21)	Severance Agreement, by and between Questcor Pharmaceuticals, Inc. and Dr. David Young, Pharm.D., Ph.D., dated October 19, 2009.**
10.83(22)	Supply Agreement, dated January 21, 2010, by and between Questcor Pharmaceuticals, Inc. and Cangene bioPharma, Inc.†
10.86(23)	Offer Letter, dated January 3, 2011, by and between Questcor Pharmaceuticals, Inc. and Michael Mulroy.**
10.87(23)	Severance Agreement, dated January 3, 2011, by and between Questcor Pharmaceuticals, Inc. and Michael Mulroy.**
10.88(24)	Supply Agreement, dated July 14, 2010, by and between Questcor Pharmaceuticals, Inc. and BioVectra, Inc. †
10.89*(25)	Share Purchase Agreement, dated January 2, 2013, by and among the Vendors, BioVectra Inc., Questcor Pharmaceuticals, Inc., 101610 P.E.I. Inc., and Vendors' Representative. †
21.1*	Subsidiaries of Registrant.
23.1*	Consent of OUM & Co. LLP, Independent Registered Public Accounting Firm.
23.2*	Consent of BDO USA, LLC, Independent Registered Public Accounting Firm.
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
32.1*	Certification of Chief 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. (3)
32.2*	Certification of Chief 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. (3)
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

* Filed herewith.

** This exhibit is identified as a management contract or compensatory plan or arrangement pursuant to Item 15(a)(3) of Form 10-K.

*** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of section 11 or 12 of the Securities and Exchange Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise is not subject to liability under these section.

(1)	Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, filed on March 30, 2000, and incorporated herein by reference.
(2)	Filed as an exhibit to the Company's Current Report on Form 8-K, filed on March 27, 2008, and incorporated herein by reference.
(3)	Filed as an exhibit to the Company's Registration Statement on Form S-1, Registration No. 33-51682, and incorporated herein by reference.
(4)	Filed as an exhibit to the Company's Proxy Statement on Schedule 14A, filed on March 28, 2002, and incorporated herein by reference.
(5)	Filed as an exhibit to the Company's Registration Statement Form S-4, Registration Statement No. 333-87611, filed on September 23, 1999, and incorporated herein by reference.
(6)	Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, filed on August 14, 2002, and incorporated herein by reference.
(7)	Filed as an exhibit to the Company's Proxy Statement on Schedule 14A, filed on March 29, 2004, and incorporated herein by reference.
(8)	Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, filed on March 31, 2005, and incorporated herein by reference.
(9)	Filed as an exhibit to the Company's Current Report on Form 8-K, filed on October 19, 2005, and incorporated herein by reference.
(11)	Filed as an exhibit to the Company's Quarterly Report on Form 10-Q, filed on July 29, 2011, and incorporated herein by reference.
(12)	Filed as an exhibit to the Company's Current Report on Form 8-K, filed on May 24, 2006, and incorporated herein by reference.

(13)	Filed as an exhibit to the Company's Current Report on Form 8-K, filed on February 15, 2007, and incorporated herein by reference.
(14)	Filed as an exhibit to the Company's Current Report on Form 8-K, filed on July 3, 2007, and incorporated herein by reference.
(15)	Filed as an exhibit to the Company's Current Report on Form 8-K, filed on July 20, 2007, and incorporated herein by reference.
(16)	Filed as an exhibit to the Company's Current Report on Form 8-K, filed on January 4, 2008, and incorporated herein by reference.
(17)	Filed as an exhibit to the Company's Quarterly Report on Form 10-Q, filed on July 29, 2011, and incorporated herein by reference.
(18)	Filed as an exhibit to the Company's Current Report on Form 8-K, filed on August 19, 2008, and incorporated herein by reference.
(19)	Filed as an exhibit to the Company's Current Report on Form 8-K, filed on September 9, 2008, and incorporated herein by reference.
(20)	Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed on March 16, 2009, and incorporated herein by reference.
(21)	Filed as an exhibit to the Company's Current Report on Form 8-K, filed on October 23, 2009, and incorporated herein by reference.
(22)	Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2009, filed on March 16, 2010, and incorporated herein by reference.
(23)	Filed as an exhibit to the Company's Current Report on Form 8-K, filed on January 10, 2011, and incorporated herein by reference.
(24)	Filed as an exhibit to the Company's Quarterly Report on Form 10-Q, filed on November 2, 2010, and incorporated herein by reference.
(25)	Certain schedules and exhibits referenced in this exhibit have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule and/or exhibit will be furnished to the SEC upon request.

† The Company has requested confidential treatment with respect to portions of this exhibit.

Lauren Holdings Inc., Earl Duffy, Paul Duffy, Maureen Duffy Cobb, Ron Keefe, Dale Zajicek, Gordon Rogers and the 2012 BV Employee Share Ownership Trust

- and -

101610 P.E.I. Inc.

- and -

Questcor Pharmaceuticals, Inc.

- and -

BioVectra Inc.

- and –

Vendors' Representative

SHARE PURCHASE AGREEMENT

January l, 2013

Osler, Hoskin & Harcourt LLP
Stewart McKelvey

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THIS SHARE PURCHASE AGREEMENT is made as of this _____ day of January, 2013.

AMONG:

Lauren Holdings Inc., Earl Duffy, Paul Duffy, Maureen Duffy Cobb, Ron Keefe, Dale Zajicek, Gordon Rogers and the 2012 BV Employee Share Ownership Trust (collectively, the "**Vendors**"),

- and -

101610 P.E.I. Inc., a corporation governed by the laws of Prince Edward Island (the "**Purchaser**")

- and -

Questcor Pharmaceuticals, Inc., a corporation governed by the laws of the State of California (the "**Questcor**")

- and -

BioVectra Inc., a corporation governed by the laws of Prince Edward Island (the "**Company**"),

- and -

Ron Keefe, in his capacity as the Vendors' Representative.

RECITALS:

A. The Vendors own and control all of the issued and outstanding shares of the Company.

B. The Vendors have agreed to sell to the Purchaser and the Purchaser has agreed to purchase from the Vendors all of the issued and outstanding shares of the Company, on the terms and conditions of this Agreement.

THEREFORE, the Parties agree as follows:

Article 1
DEFINITIONS AND PRINCIPLES OF INTERPRETATION

1.1 Definitions

Whenever used in this Agreement, the following words and terms have the meanings set out below:

"**2015 Earn-Out Payment**" has the meaning given in Section 3.3(c)(i).

"**Accounts Receivable**" means accounts receivable, bills receivable, trade accounts, book debts and insurance claims recorded as receivable in the Books and Records and other amounts due or deemed to be due to the Company or any of the Subsidiaries, including refunds and rebates receivable, all as calculated in accordance with GAAP.

"**Accrued Liabilities**" means ordinarily recurring operating expenses of the Company and the Subsidiaries incurred but that are not yet due and payable and claims against the Company and the Subsidiaries that are increasing with the passage of time or receipt of goods or services but are not yet due and payable, including accruals for vacation pay, customer rebates and allowances for product returns, all as calculated in accordance with GAAP.

"**Affiliate**" of any Person means, at the time such determination is being made, any other Person controlling, controlled by or under common control with such first Person, in each case, whether directly or indirectly, and "**control**" and any derivation thereof means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person whether through the ownership of voting securities, by Contract or otherwise.

"**Agreement**" means this Share Purchase Agreement, including all schedules and exhibits and all amendments or restatements, as permitted, and references to "**Article**" or "**Section**" mean the specified Article or Section of this Agreement.

"**Appurtenances**" means privileges, rights, easements and appurtenances both at Law and equity belonging to or for the benefit of Real Property, including means of access between Real Property and a public way, rights in respect of or for any other uses upon which the present use is dependent (such as pipelines, cables, railway sidings) and rights existing in and to any streets, alleys, passages and other rights-of-way.

"**arm's length**" has the meaning that it has for purposes of the *Income Tax Act* (Canada).

"**Balance Sheet**" means the consolidated balance sheet of the Company and the Subsidiaries as at August 31, 2012, forming part of the Financial Statements.

"**Base Operating Earnings**" means $[***] .

"**Benefit Plans**" means plans, arrangements, agreements, programs, policies, practices or undertakings, whether oral or written, formal or informal, funded or unfunded, insured or uninsured, registered or unregistered to which the Company or any of the Subsidiaries are a party or bound or in which the Employees participate or under which the Company or any of the Subsidiaries have, or will have, any liability or contingent liability, or pursuant to which payments are made, or benefits are provided to, or an entitlement to payments or benefits may arise with respect to its Employees or former employees, directors or officers, individuals working on Contract with the Company or any of the Subsidiaries or other individuals providing services to the Company or any of the Subsidiaries of a kind normally provided by Employees (or any spouses, dependants, survivors or beneficiaries of any such persons), and for greater certainty including the Pension Plans but excluding Statutory Plans.

"**Books and Records**" means books and records of the Company and the Subsidiaries relating to the Company or the Subsidiaries, including financial, corporate, books of account, sales and purchase records, lists of suppliers and customers, business reports, plans and projections and all other documents, surveys, plans, files, records, assessments, correspondence, and other data and information, financial or otherwise, including all data, information and databases stored on computer-related or other electronic media.

"**Business Day**" means any day, other than a Saturday or Sunday, on which the banks in the City of Toronto are open for commercial banking business during normal banking hours.

"**Change of Control**" means any one of the following events:

(a) the sale or transfer by Questcor or any of its Affiliates or the issuance of new shares of the Company or any other transaction resulting in the direct or indirect ownership by Questcor and its Affiliates of less than 50% of the voting rights in the Company; or

(b) the sale or disposition of all or substantially all of the Company's assets.

"**Claims**" includes claims, demands, complaints, grievances, actions, applications, suits, causes of action, Orders, charges, indictments, prosecutions, informations or other similar processes, assessments or reassessments, judgments, debts, liabilities, penalties, fines, expenses, costs, damages or losses, contingent or otherwise, whether liquidated or unliquidated, matured or unmatured, disputed or undisputed, contractual, legal or equitable, including loss of value, professional fees, including fees and disbursements of legal counsel on a full indemnity basis, and all costs incurred in investigating or pursuing any of the foregoing or any proceeding relating to any of the foregoing.

"**Closing**" means the completion of the sale to and purchase by the Purchaser of the Purchased Shares under this Agreement.

"**Closing Date**" means the date that is one (1) Business Day after the date on which all conditions set forth in Article 7 and Article 8 have been satisfied or waived, or such other date as the Parties may agree in writing as the date upon which the Closing takes place. Each Party shall make reasonable good faith efforts to satisfy each of the conditions set forth in Article 7 and Article 8 on or before January 17, 2013.

"**Closing Time**" means 11:00 a.m. (Charlottetown time)/ 10:00 a.m. (Toronto time), on the Closing Date or such other time on such date as the Parties may agree in writing as the time at which the Closing takes place.

"**Contracts**" means contracts, licences, leases, agreements, obligations, promises, undertakings, understandings, arrangements, documents, commitments, entitlements or engagements to which the Company or any of the Subsidiaries is a party or by which it is bound or under which the Company or any of the Subsidiaries has, or will have, any liability or contingent liability (in each case, whether written or oral, express or implied), and includes, in the case of Material Contracts, any quotations, orders, proposals or tenders that remain open for acceptance and warranties and guarantees.

"**Disclosure Letter**" has the meaning set forth in Article 4.

"**Earn-Out Amounts**" means the aggregate of:

(a) the amount payable to the Vendors pursuant to Section 3.3(a), or if no amount is payable pursuant to that Section, zero;

(b) the amount payable to the Vendors pursuant to Section 3.3(b), or if no amount is payable pursuant to that Section, zero; and

(c) the amount payable to (or less any amount owed by) the Vendors pursuant to Section 3.3(c)(ii).

"**Earn-Out Calculation Statement**" has the meaning given in Section 3.3(d).

"**Earn-Out Objection Notice**" has the meaning given in Section 3.3(f).

"**Employees**" means individuals employed by the Company or any of the Subsidiaries on a full-time, part-time or temporary basis, including those employees on disability leave, parental leave or other absence.

"**Employment Contracts**" means Contracts, other than Benefit Plans, whether oral or written, relating to an Employee, including any communication or practice relating to an Employee that imposes any obligation on the Company or any of the Subsidiaries.

"**Encumbrances**" means pledges, liens, charges, security interests, leases, title retention agreements, mortgages, restrictions, developments or similar agreements, easements, rights-of-way, title defects, options or adverse claims or encumbrances of any kind or character whatsoever.

"**Environment**" means the environment and natural environment as defined in any Environmental Laws and includes indoor air, and any living things.

"**Environmental Approvals**" means permits, permissions, certificates, licences, authorizations, consents, agreements, instructions, directions, notices, registrations, approvals or other rights made, issued, granted, conferred or required by a Governmental Authority pursuant to any Environmental Law relating to the operations, business or assets of the Company or any of the Subsidiaries.

"**Environmental Laws**" means any Laws relating to the Environment including without limitation Laws relating to any sewer system and to the storage, generation, use, handling, manufacture, production, processing, labelling, advertising, sale, display, transportation, import, export, treatment, reuse, recycling, Release and disposal of Hazardous Substances.

"Environmental Orders" means Orders issued, filed, imposed or threatened by any Governmental Authority pursuant to any Environmental Laws and include certificates of property use and Orders requiring investigation, assessment, monitoring, managing, controlling, treatment, removal, excavation or remediation of any site or Hazardous Substance, or requiring that any Release activity or condition be reduced, modified, managed, controlled, stopped or eliminated or requiring that any form of payment or co-operation be provided to any Governmental Authority.

"**Equipment Contracts**" means any Contracts relating to title to Tangible Personal Property including without limitation motor vehicle leases, equipment leases, leases of computer hardware and computer systems, conditional sales contracts, title retention agreements and other similar agreements.

"**Financial Statements**" means the audited consolidated financial statements of the Company and the Subsidiaries for the fiscal year ended August 31, 2012, with an audit report dated November 2, 2012, consisting of the Balance Sheet and the statements of earnings and retained earnings and cash flows and all notes thereto, and any interim unaudited consolidated financial statements for the months ending September 30, 2012, October 31, 2012 and November 30, 2012 for the Company and the Subsidiaries, copies of which are set out in Section 4.11 of the Disclosure Letter and have been made available to the Purchaser.

"**GAAP**" means generally accepted accounting principles applicable to private enterprises as defined by the Accounting Standards Board of the Canadian Institute of Chartered Accountants in the Handbook of the Canadian Institute of Chartered Accountants as they exist on the date of this Agreement.

"**Good Manufacturing Practices**" or "**GMPs**" means the standards relating to the then-current Good Manufacturing Practices for the testing, manufacturing, processing, packaging, labelling, storage or distribution of active pharmaceutical ingredients, intermediates, bulk products or finished pharmaceutical products set forth in: (i) the Food and Drug Regulations including those set forth in Division 2 of the Food and Drug Regulations and in the and guidance documents and policies interpreting the requirements for Good Manufacturing Practices promulgated by Health Canada including the Good Manufacturing Practices (GMP) Guidelines 2009 Edition Version 2 (GUI–0001) and its associated Annexes; and (ii) the Code of Federal Regulations at 21 C.F.R. Parts 210 and 211, as may be amended from time to time including the published

standards of the U.S. Food and Drug Administration; and (iii) similar standards, guidelines and regulations promulgated or otherwise required in any jurisdiction in which the products of the Company or any Subsidiary, or produced by Company or any Subsidiary, are distributed or sold.

"**Governmental Authorities**" means governments, regulatory authorities, governmental departments, agencies, commissions, bureaus, officials, ministers, Crown corporations, courts, bodies, boards, tribunals or dispute settlement panels or other law, rule or regulation-making organizations or entities:

(a) having or purporting to have jurisdiction on behalf of any nation, province, territory or state or any other geographic or political subdivision of any of them; or

(b) exercising, or entitled or purporting to exercise any administrative, executive, judicial, legislative, policy, regulatory or taxing authority or power.

"**Governmental Authorizations**" means authorizations, approvals, including Environmental Approvals, franchises, Orders, certificates, consents, directives, notices, licences, permits, variances, agreements, clearances, instructions, registrations or other rights issued to or required by the Company or any of the Subsidiaries by or from any Governmental Authority including those required under the *Food and Drugs Act* (Canada) and the regulations promulgated thereunder, the *Controlled Drugs and Substances Act* (Canada) and the regulations promulgated thereunder and any other Governmental Authority with jurisdiction or purported jurisdiction over the activities of the Company or any of the Subsidiaries or the drug products or biologics manufactured, packaged, labelled, tested, sold, marketed or distributed by the Company that regulates the quality, identity, strength, purity, safety, efficacy, manufacturing, packaging, labelling, testing, sales, marketing or distribution of biologic and drug products.

"**Hazardous Substances**" means pollutants, contaminants, wastes of any nature, hazardous substances, hazardous materials, toxic substances, prohibited substances, dangerous substances or dangerous goods as defined, judicially interpreted or identified in any Environmental Laws, including drugs, pharmaceuticals, enzymes, hormones, living organisms, biological agents, asbestos, asbestos-containing materials, polychlorinated biphenyls (PCBs), petroleum hydrocarbons and their derivatives, and mould.

"**Improvements**" means plants, buildings, structures, fixtures, erections and improvements located on, over, under or upon the Real Property and mechanical, electrical, plumbing, heating and air-conditioning systems relating to the Real Property, including any of the foregoing under construction.

"**Indemnified Party**" has the meaning given in Section 11.3(a).

"**Independent Auditor**" means PricewaterhouseCoopers LLP or such other independent auditing firm as the Parties may otherwise agree.

"**Information Technology**" means computer hardware, software in source code and object code form (including documentation, interfaces and development tools), websites for the Company or any of the Subsidiaries, databases, telecommunications equipment and facilities and other information technology systems owned, used or held by the Company or any of the Subsidiaries.

"**Intellectual Property**" means intellectual property rights, whether registered or not, owned, used or held by the Company or any of the Subsidiaries, including without limitation:

(a) inventions, pending patent applications (including divisionals, reissues, renewals, re-examinations, continuations, continuations-in-part and extensions) and issued patents, including those inventions, pending patent applications and issued patents listed and described in Section 4.26(a) of the Disclosure Letter;

(b) trade-marks, trade dress, trade-names, business names and other indicia of origin, including those listed and described in Section 4.26(a) of the Disclosure Letter;

(c) trade secrets or other confidential information listed and described in Section 4.26(a) of the Disclosure Letter;

(d) copyrights, including the copyright registrations and applications listed and described in Section 4.26(a) of the Disclosure Letter;

(e) industrial designs and similar rights, including those registrations and applications listed and described in Section 4.26(a) of the Disclosure Letter;

(f) domain name and web address registrations listed and described in Section 4.26(a) of the Disclosure Letter; and

(g) any similar, corresponding or equivalent rights to any of the foregoing anywhere in the world.

"**Inventories**" means items that are held by the Company or any of the Subsidiaries for sale in the ordinary course of business, or are being produced for sale, or are to be consumed, directly or indirectly, in the production of goods or services to be available for sale, of every kind and nature and wherever situate including inventories of raw materials, work-in-progress, finished goods and by-products, operating supplies and packaging materials, but does not include any inventory owned by customers of the Company which is located or stored at the Real Property by agreement between the Company and its customers.

"**Laws**" means applicable laws (including common law and civil law), statutes, by-laws, rules, regulations, Orders, ordinances, protocols, codes, guidelines, treaties, policies, notices, directions, decrees, judgments, awards or requirements, in each case of any Governmental Authority.

"**Leased Real Property**" means lands and/or premises that are used by the Company or any of the Subsidiaries and that are leased, subleased, licensed to or otherwise occupied by the Company or any of the Subsidiaries and the interest of the Company and the Subsidiaries in Improvements and Appurtenances.

"Legacy Benefit Plan Members" means persons who are not Employees nor former employees, directors or officers, individuals working on contract with the Company or any of the Subsidiaries or other individuals providing services to the Company or any of the Subsidiaries of a kind normally provided by employees (or any spouses, dependants, survivors or beneficiaries of any such persons).

"**made available**" means inclusion in the virtual data room maintained by the Company and to which the Purchaser has full access at least five (5) days prior to the date of this Agreement.

"**Material Adverse Effect**" means a change, effect or circumstance that, when considered either individually or in the aggregate together with all other adverse changes, effects or circumstances with respect to which such phrase is used in this Agreement, is materially adverse to, or could reasonably be expected to have a material adverse effect on, the financial condition or results of operations or business or prospects or assets of the Company and the Subsidiaries, taken as a whole.

"**Material Contracts**" means all agreements, Contracts, arrangements and commitments to which the Company or any of the Subsidiaries is a party and which are currently in effect and constitute any of the following:

(a) all Contracts involving aggregate payments to or by the Company or any of the Subsidiaries in excess of $250,000;

(b) all Contracts that are outside the ordinary course of business;

(c) all Contracts that restrict in any way the business or activities of the Company or any of the Subsidiaries and which the Company would violate their restrictive covenants upon the consummation of the transactions contemplated by this Agreement;

(d) all Contracts that, if terminated without the consent of the Company or any of the Subsidiaries, would have a Material Adverse Effect;

(e) all Contracts and agreements with major customers (other than ordinary course purchase and sale orders);

(f) all partnership, joint venture or limited liability company contract arrangements or agreements;

(g) all Contracts or other documents of the Company or any of the Subsidiaries in respect of borrowed money, including financial instruments of indenture or security instruments (whether or not interest-bearing) such as notes, mortgages, loans and lines of credit;

(h) all Contracts that grant any right of first refusal or right of first offer or similar right to third parties or that, other than for sales of product in the ordinary course of business, limit or purports to limit the ability of the Company or any of the Subsidiaries in any material respect to pledge, sell, transfer or otherwise dispose of any material amount of assets or business;

(i) all Contracts providing for any payments that are conditioned, in whole or in part, on a change of control with respect to the Company or any of the Subsidiaries;

(j) all agency, broker, sales representative, marketing or similar Contracts with respect to which the annual sales exceed $250,000;

(k) all Contracts relating to any merger or business combination concerning the Company or the acquisition or disposition of any assets or any Person during the last five years or pursuant to which the Company or any of the Subsidiaries has any remaining rights or obligations;

(l) all Contracts with any director, officer, Employee or Affiliate of the Company or of any of the Subsidiaries;

(m) all Contracts pursuant to which the Company or any of the Subsidiaries agrees to indemnify any other party other than in the ordinary course of business;

(n) all Contracts with any Governmental Authority; and

(o) all Contracts or other agreements with any current or former officer, director, Employee, consultant, agent or other representative or any agreement or understanding pursuant to which the Company or any of the Subsidiaries is liable for any severance or termination pay.

"**Multi-Employer Plans**" means Benefit Plans to which the Company or any of the Subsidiaries is required to contribute and that are not maintained or administered by the Company or any of the Subsidiaries or its Affiliates.

"**Non-Compete Covenant**" has the meaning set forth in Section 3.6.

"**Notice**" has the meaning given in Section 12.3.

"**Operating Earnings**" means the Company's operating earnings (which are after interest expense) before other earnings (expense) and before income taxes as set out in the Company's audited financial statements, prepared in accordance with GAAP applied on a consistent and good faith basis in all periods that affect the Earn-out Calculation Statement and as adjusted for the items set forth in Schedule 1.1.

"**Orders**" means orders, injunctions, judgments, administrative complaints, decrees, rulings, awards, assessments, directions, instructions, penalties or sanctions issued, filed or imposed by any Governmental Authority or arbitrator, including Environmental Orders.

"**Owned Real Property**" means real property, owned or purported to be owned in fee simple, by the Company or any of the Subsidiaries, and real property, other than Leased Real Property, in which the Company or any of the Subsidiaries has an interest, including Improvements and Appurtenances.

"**Parties**" means each of the Vendors, the Purchaser, Questcor, the Company and the Vendors' Representative collectively, and "Party" means any one of them.

"**Pension Plans**" means Benefit Plans providing pensions, superannuation benefits or retirement savings including pension plans, top up pensions or supplemental pensions, "registered retirement savings plans" (as defined in the *Income Tax Act* (Canada)), "registered pension plans" (as defined in the *Income Tax Act* (Canada)) and "retirement compensation arrangements" (as defined in the *Income Tax Act* (Canada)).

"**Pension Plan Unfunded Liability**" means an unfunded liability in respect of any Pension Plan, including a going concern unfunded liability, a solvency deficiency or wind-up deficiency.

"**Permitted Encumbrances**" means the Encumbrances listed in Section 4.18 of the Disclosure Letter.

"**Person**" means any individual, sole proprietorship, partnership, firm, entity, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, Governmental Authority, and where the context requires any of the foregoing when they are acting as trustee, executor, administrator or other legal representative.

"**Personal Information**" means information in the possession or under the control of the Company or any of the Subsidiaries about an identifiable individual.

"**Preferred Shares**" means all of the issued and outstanding preferred shares of the Company, including the Class A preferred shares, the Class B preferred shares, the Class C preferred shares and the Class D preferred shares.

"**Purchase Price**" has the meaning given in Section 3.1.

"**Purchased Shares**" means all of the issued and outstanding shares in the capital of the Company, including the Preferred Shares.

"**Purchaser Indemnified Parties**" has the meaning given in Section 11.1.

"**Questcor 8-K**" has the meaning given in Section 12.1.

"**Real Property**" means Owned Real Property and Leased Real Property.

"**Real Property Leases**" means Contracts pursuant to which the Company or any of the Subsidiaries uses or occupies the Leased Real Property, including all rights to related Improvements and Appurtenances.

"**Release**" has the meaning prescribed in any Environmental Laws and includes any release, spill, leak, pumping, addition, pouring, emission, emptying, discharge, injection, escape, leaching, disposal, dumping, deposit, spraying, burial,

abandonment, incineration, seepage, placement or introduction, whether accidental or intentional.

"**Released Parties**" has the meaning given in Section 11.7.

"**Restricted Right**" means any Contract or Governmental Authorization that by its terms requires consent or approval of the other party or parties thereto or the issuer for completion of the transactions contemplated by this Agreement or in respect of which the completion of the transactions contemplated by this Agreement will increase the obligations or decrease the rights or entitlements of the Company or any of the Subsidiaries under such Contract or Governmental Authorization.

"**Statutory Plans**" means statutory benefit plans that the Company or any of the Subsidiaries is required to participate in or comply with, including the Canada Pension Plan and plans administered pursuant to applicable health tax, workplace safety insurance and employment insurance legislation.

"**Subsidiaries**" means corporations in which the Company has a controlling interest including those listed in Section 4.4 of the Disclosure Letter.

"**Tangible Personal Property**" means machinery, equipment, furniture, furnishings, office equipment, computer hardware, supplies, materials, vehicles, material handling equipment, implements, parts, tools, jigs, dies, moulds, patterns, tooling and spare parts and tangible assets (other than Real Property and Inventory) owned or leased by the Company or any of the Subsidiaries, including (i) any of the foregoing that are in storage or in transit; (ii) other tangible personal property of the Company or any of the Subsidiaries whether located in or on the Real Property or elsewhere; (iii) any of the foregoing that may be attached to Real Property but are not Improvements, but does not include any personal property owned or leased by customers of the Company which is located or stored at the Real Property by agreement between the Company and its customers.

"**Tax Returns**" includes all returns, reports, declarations, elections, notices, filings, forms, statements and other documents (whether in tangible, electronic or other form) and including any amendments, schedules, attachments, supplements, appendices and exhibits thereto, made, prepared, filed or required to be made, prepared or filed by Law in respect of Taxes.

"**Taxes**" includes any taxes, duties, fees, premiums, assessments, imposts, levies and other charges of any kind whatsoever imposed by any Governmental Authority, including all interest, penalties, fines, additions to tax or other additional amounts imposed by any Governmental Authority in respect thereof, and including those levied on, or measured by, or referred to as, income, gross receipts, profits, capital, transfer, land transfer, sales, goods and services, harmonized sales, use, value-added, excise, stamp, withholding, business, franchising, property, development, occupancy, employer health, payroll, employment, health, social services, education and social security taxes, all surtaxes, all customs duties and import and export taxes, countervail and anti-dumping, all licence, franchise and registration fees and all employment insurance, health insurance and Canada and other government pension plan premiums or contributions.

"**Technical Information**" means know-how and related technical knowledge owned, used or held by the Company or any of the Subsidiaries, including:

(a) trade secrets, confidential information and other proprietary know-how;

(b) public information and non-proprietary know-how;

(c) information of a scientific, technical, financial or business nature regardless of its form;

(d) uniform resource locators, domain names, telephone, telecopy, internet protocol and email addresses, and UPC consumer packaging codes; and

(e) documented research, forecasts, studies, marketing plans, budgets, market data, developmental, demonstration or engineering work, information that can be used to define a design or process or procure, produce, support or operate material and equipment, methods of production and procedures, all formulas and designs and drawings, blueprints, patterns, plans, flow charts, parts lists, manuals and records, specifications, and test data.

"**Technology**" means Technical Information and Information Technology.

"**Vendor's Representative**" has the meaning given in Section 1.6.

1.2 Certain Rules of Interpretation

In this Agreement:

(a) **Consent** – Whenever a provision of this Agreement requires an approval or consent and such approval or consent is not delivered within the applicable time limit, then, unless otherwise specified, the Party whose consent or approval is required is conclusively deemed to have withheld its approval or consent.

(b) **Currency** – Unless otherwise specified, all references to money amounts are to lawful currency of Canada.

(c) **Governing Law** – This Agreement is a contract made under and is governed by and is to be construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable in the Province of Ontario.

(d) **Headings** – Headings of Articles and Sections are inserted for convenience of reference only and do not affect the construction or interpretation of this Agreement.

(e) **Including** – Where the word "including" or "includes" is used in this Agreement, it means "including (or includes) without limitation".

(f) **No Strict Construction** – The language used in this Agreement is the language chosen by the Parties to express their mutual intent, and no rule of strict construction is to be applied against any Party.

(g) **Number and Gender** – Unless the context otherwise requires, words importing the singular include the plural and vice versa and words importing gender include all genders.

(h) **Severability** – If, in any jurisdiction, any provision of this Agreement or its application to any Party or circumstance is restricted, prohibited or unenforceable, such provision is, as to such jurisdiction, ineffective only to the extent of such restriction, prohibition or unenforceability without invalidating the remaining provisions of this Agreement and without affecting the validity or enforceability of such provision in any other jurisdiction or without affecting its application to other Parties or circumstances.

(i) **Statutory references** – A reference to a statute includes all regulations and rules made pursuant to such statute and, unless otherwise specified, the provisions of any statute, regulation or rule that amends, supplements or supersedes any such statute, regulation or rule.

(j) **Time** – Time is of the essence in the performance of the Parties' respective obligations.

(k) **Time Periods** – Unless otherwise specified, time periods within or following which any payment is to be made or act is to be done is calculated by excluding the day on which the period commences and including the day on which the period ends and by extending the period to the next Business Day following if the last day of the period is not a Business Day.

1.3 Accounting Terms

All accounting terms not specifically defined in this Agreement are to be interpreted in accordance with GAAP.

1.4 Knowledge

Any reference to the knowledge of any Party means to the best of the knowledge, information and belief of such Party after reviewing all relevant records and making due inquiries regarding the relevant matter of all relevant directors, officers and employees of such Party. In the case of the Vendors or the Company, knowledge of the Vendors or the Company includes knowledge of the relevant senior managers of the Company after making due inquiries of the relevant directors, officers and Employees of the Company and the Subsidiaries.

1.5 Entire Agreement

This Agreement, the agreements and other documents required to be delivered pursuant to this Agreement and the Confidentiality Agreement dated June 13, 2012, constitute the entire agreement between the Parties and set out all the covenants, promises, warranties, representations, conditions and agreements between the Parties in connection with the subject matter of this Agreement and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, pre-contractual or otherwise, including the letter of intent dated October 16, 2012. There are no covenants, promises, warranties, representations, conditions, understandings or other agreements, whether oral or written, pre-contractual or otherwise, express, implied or collateral between the Parties in connection with the subject matter of this Agreement except as specifically set forth in this Agreement and any document required to be delivered pursuant to this Agreement.

1.6 Vendors' Representative

(a) Each of the Vendors hereby appoints Ron Keefe as its representative and agent and true and lawful attorney-in-fact (the "**Vendors' Representative**") with the powers and authority set out in this Agreement, and the Vendors' Representative hereby accepts such appointment. The Vendors' Representative shall be the agent for and on behalf of all of the Vendors in respect of all matters relating to this Agreement, including settling matters relating to the Earn-out Amounts and indemnification claims, by having the authority to (1) give and receive notices and communications to or from the Purchaser or Questcor (on behalf of itself or any other Purchaser Indemnified Parties); (2) authorize deliveries to the Purchaser of cash or other property from the Earn-out Amounts and legally bind each Vendor to pay cash directly to the Purchaser in satisfaction of claims asserted by the Purchaser (on behalf

of itself or any other Purchaser Indemnified Parties, including by not objecting to such claims); (3) consent or agree to, negotiate, enter into settlements and compromises of claims, and comply with Orders with respect to such claims; and (4) take all actions necessary or appropriate in the judgment of the Vendors' Representative for the accomplishment of the foregoing, in each case without having to seek or obtain the consent of any Person under any circumstance. The Purchaser and Questcor may rely on any communication made by the Vendors' Representative to the Purchaser or Questcor, as the case may be, on behalf of the Vendors as applying to all Vendors, and each such communication is binding on all Vendors.

(b) None of the Vendors shall have any right to act on its own behalf with respect to any such matters, other than with respect to any claim against or dispute with the Vendors' Representative.

(c) This appointment of agency and this power of attorney is coupled with an interest and will be irrevocable and will not be terminated by any Vendor or by operation of Law, whether by the incapacity of any Vendor or the occurrence of any other event, and any action taken by the Vendors' Representative will be as valid as if such incapacity or other event had not occurred, regardless of whether or not any Vendor or the Vendors' Representative will have received any notice thereof.

(d) Except as otherwise set forth in this Section 1.6(d), any notice or communication given or received by, and any decision, action, failure to act within a designated period of time, agreement, consent, settlement, resolution or instruction of, the Vendors' Representative that is within the scope of the Vendors' Representative's authority under 1.6(a) shall constitute a notice or communication to or by, or a decision, action, failure to act within a designated period of time, agreement, consent, settlement, resolution or instruction of all the Vendors and shall be final, binding and conclusive upon each of them. Each of the Purchaser and Questcor shall be entitled to rely upon any such notice, communication, decision, action, failure to act within a designated period of time, agreement, consent, settlement, resolution or instruction as being a notice or communication to or by, or a decision, action, failure to act within a designated period of time, agreement, consent, settlement, resolution or instruction of, each and every Vendor. The Purchaser and Questcor are each unconditionally and irrevocably relieved from any liability to any Person for any acts done by it in accordance with any such notice, communication, decision, action, failure to act within a designated period of time, agreement, consent or instruction of the Vendors' Representative.

(e) The scope of the powers of the Vendors' Representative as agent for the Vendors may be changed by a majority vote or consent of Vendors upon not less than 30 days' prior written notice to the Purchaser, Questcor and the Vendors' Representative. If Ron Keefe refuses or is no longer capable of serving as the Vendors' Representative hereunder, then the successor Vendors' Representative will thereafter be Gordon Rogers, who shall serve as the Vendors' Representative until such successor is duly appointed and qualified to act hereunder. If Gordon Rogers refuses or is no longer capable of serving as the Vendors' Representative hereunder, then the successor Vendors' Representative will thereafter be Dale Zajicek, who shall serve as the Vendors' Representative until such successor is duly appointed and qualified to act hereunder. If Dale Zajicek refuses or is no longer capable of serving as the Vendors' Representative hereunder, then the Vendors representing a majority in number of the common shares of the Company held prior to the completion of this transaction, will promptly appoint a successor Vendors' Representative who will thereafter be a successor Vendors' Representative hereunder, and the Vendors' Representative will serve until such successor is duly appointed and qualified to act hereunder. In the event of a vacancy in the position of the Vendors' Representative, or refusal or incapability of the Vendors' Representative to serve, which continues for more than 90 days, the Purchaser may appoint a successor Vendors' Representative who will thereafter be a successor Vendors' Representative hereunder. If there is not a Vendors' Representative at any time, any obligation to provide notice to the Vendors' Representative will be deemed satisfied if such notice is delivered to each of the Vendors at their addresses last known to the Purchaser.

(f) Absent a finding of fraud or wilful breach by the Vendors' Representative of this Agreement by a court of competent jurisdiction, the Vendors' Representative shall not be liable to any of the Vendors for any act done or omitted hereunder as the Vendors' Representative and any act done or omitted in accordance with the advice of counsel or other expert shall be conclusive evidence of the absence of such fraud or willful breach. The Vendors shall jointly and severally indemnify the Vendors' Representative and hold him harmless against any loss, liability, damage, Claim, suit, penalty, cost or expense (including fees and expenses of counsel and any costs and expense incurred by the Vendors' Representative to defend himself against any claim or suit by any Vendor) incurred other than as a result of fraud or willful breach by the Vendors' Representative of this Agreement as determined by a court of competent jurisdiction and arising out of or in connection with the acceptance or administration of its duties hereunder.

(g) By his signature to this Agreement, the Vendors' Representative hereby accepts the appointment contained in this Agreement, as confirmed and extended by this Agreement, and agrees to act as the Vendors' Representative and to discharge the duties and responsibilities of the Vendors' Representative pursuant to the terms of this Agreement.

1.7 Schedules

The schedules to this Agreement, listed below, are an integral part of this Agreement:

Schedule	Description
Schedule 1.1	Adjustments to Operating Earnings
Schedule 3.2	Allocation of Purchase Price
Schedule 3.3(m)	Arbitration
Schedule 7.3	Required Approvals
Schedule 7.6	Form of Non-Competition, Non-Solicitation & Confidentiality Agreement
Schedule 7.7	Form of Employment Agreement
Schedule 7.9	Form of Opinion from Vendors' Counsel
Schedule 7.10	Form of Opinion from Counsel for Lauren Holdings Inc.
Schedule 8.5	Form of Opinion from Purchaser's Counsel
Schedule 11.1	Indemnity
Schedule 12.3	Notices

ARTICLE 2
PURCHASE AND SALE

2.1 Action by Vendors and Purchaser

Subject to the provisions of this Agreement, at the Closing Time:

(l) **Purchase and Sale of Purchased Shares** – the Vendors will sell and the Purchaser will purchase the Purchased Shares;

(m) **Payment of Purchase Price** – the Purchaser will pay the amount of the Purchase Price payable at the Closing to the Vendors in accordance with Section 3.2(a);

(n) **Transfer and Delivery of the Purchased Shares** – concurrent with the execution of this Agreement, the Vendors will transfer and deliver to Stewart McKelvey, to be held in escrow, share certificates representing the Purchased Shares duly endorsed in blank for transfer, or accompanied by irrevocable security transfer powers of attorney duly executed in blank, in either case by the holders of record as of the date of this Agreement. At Closing, the Vendors' Representative will direct Stewart McKelvey to transfer and deliver to the Purchaser the share certificates representing the Purchased Shares duly endorsed in blank for transfer, or accompanied by irrevocable security transfer powers of attorney duly executed in blank and will take such steps as are necessary to cause the Company to enter the Purchaser or its nominees(s) upon the books of the Company as the holder of the Purchased Shares as of the Closing Date and to issue one or more share certificates to the Purchaser or its nominee(s) representing the Purchased Shares at Closing; and

(o) **Other Documents** – the Vendors, the Purchaser and the Company will deliver such other documents as may be necessary to complete the transactions provided for in this Agreement, including the deliveries set forth in Article 7 and Article 8.

2.2 Place of Closing

The Closing will take place at the Closing Time at the offices of Osler, Hoskin & Harcourt LLP in the City of Toronto, remotely via the exchange of documents and signatures, or at such other place as may be agreed upon by the Parties.

2.3 Assignment of Restricted Rights

(a) If at Closing there are any Restricted Rights in respect of which consents, approvals, waivers or reasonable modifications have not been obtained, then, following Closing, the Vendors will continue their efforts to obtain any necessary consents, approvals, waivers or reasonable modifications.

(b) To the extent there are any consents, approvals, waivers or reasonable modifications outstanding at Closing, the Vendors will:

(i) apply for and use all reasonable efforts to obtain all consents, approvals, waivers or reasonable modifications acceptable to the Purchaser acting reasonably. Nothing in this Section 2.3 will require the Company to make any payment to any other party in order to obtain such consents, approvals, waivers or reasonable modifications, and any such payments will be for the Vendors' account; and

(ii) take all such actions and do, or cause to be done, all such things at the request of the Purchaser as are reasonably necessary in order that the value and benefits of the applicable Restricted Rights are preserved and enure to the benefit of the Purchaser.

ARTICLE 3
PURCHASE PRICE

3.1 Purchase Price

Subject to Section 3.4, the aggregate amount payable by the Purchaser for the Purchased Shares (the "**Purchase Price**"), exclusive of all applicable sales and transfer taxes, is equal to:

(a) $50 million; minus

(b) any out-of-pocket expenses of the Company in excess of $50,000 related to this Agreement or the transactions contemplated hereby other than to the extent paid by the Vendors in accordance with Section 12.3; plus

(c) the Earn-Out Amounts, if any, and

in no event will the total Purchase Price exceed $100 million.

3.2 Satisfaction of Purchase Price

The Purchaser will satisfy the Purchase Price as follows:

(c) by paying to Stewart McKelvey, in trust, on behalf of the Vendors at the Closing Time $50 million (minus any expenses referred to in Section 3.1(b)); and

(d) by paying the Earn-Out Amounts to the Vendors, if applicable, in accordance with Section 3.3.

The Purchase Price shall be paid to Stewart McKelvey, in trust, on behalf of each of the Vendors and will be distributed by Stewart McKelvey in accordance with a direction executed by each of the Vendors and in the proportions set forth in Schedule 3.2; for greater certainty, unless a direction is delivered by the Vendors' Representative to the Purchaser providing for different instructions with respect to the payment of the Earn-Out Amounts, the Purchaser shall deliver the applicable Earn-Out Amounts to Stewart McKelvey, in trust, on behalf of the Vendors and such amounts will be distributed by Stewart McKelvey in accordance with a direction executed by each of the Vendors and in the proportions set forth in Schedule 3.2. The Purchaser shall have no responsibility or liability relating to the distribution of the Purchase Price by Stewart McKelvey to the Vendors.

3.3 Earn-out

(a) *2013 Earn-out Payment.* If the Operating Earnings for the 12-month period ending December 31, 2013 equals or exceeds the Base Operating Earnings, the Purchaser will pay an Earn-Out Amount of $5,000,000 to the Vendors.

(b) *2014 Earn-out Payment.* If the Operating Earnings for the 12-month period ending December 31, 2014 equals or exceeds the Base Operating Earnings, the Purchaser will pay an Earn-Out Amount of $5,000,000 to the Vendors.

(c) *2015 Earn-Out Amount.*

(i) "**2015 Earn-Out Amount**" means an amount calculated as:

(A) [***] multiplied by a fraction:

(1) the numerator of which is the Operating Earnings for the [***] period ending December 31, 2015, annualized (by multiplying such amount by [***]); and

(2) the denominator of which is the Base Operating Earnings;

minus:

(B) the amounts, if any, paid pursuant to Sections 3.3(a) and 3.3(b).

(ii) If:

(A) the 2015 Earn-Out Amount is a positive number, the Purchaser will pay to the Vendors an Earn-Out Amount equal to the lesser of:

(1) the 2015 Earn-Out Amount; or

(2) $50,000,000 minus the amounts, if any, paid pursuant to Sections 3.3(a) and 3.3(b); or

(B) the 2015 Earn-Out Amount is a negative number, the Vendors will refund to the Purchaser the lesser

of (i) the absolute value of the 2015 Earn-Out Amount (i.e. disregarding the negative) and (ii) the sum of the Earn-Out Amounts paid, if any, pursuant to Sections 3.3(a) and 3.3(b).

(d) Questcor and the Company shall each cause the audit of the Company's financial statements to occur for the four months ending December 31, 2012 and for each of the years ending December 31, 2013, 2014 and 2015 and shall use commercially reasonable efforts to have such audited statements completed within 45 days of the end of each of such fiscal years or as otherwise agreed to by Questcor and the Company acting reasonably. Within 15 days following the completion of the audit of the Company's financial statements for the years ending December 31, 2012, 2013 and 2014, the Purchaser will provide to the Vendors' Representative a copy of the relevant financial statement of the Company together with a good faith calculation of a statement of the Operating Earnings in respect of the applicable year and in the case of the year ended December 31, 2012, the Operating Earnings for the 4-month period ending December 31, 2012 and the calculations used to determine whether amounts are payable pursuant to Sections 3.3(a) or 3.3(b) and within 15 days following the completion of the audit of the Company's financial statements for the year ending December 31, 2015, the Purchaser will provide to the Vendors' Representative a copy of the relevant audited financial statement of the Company together with a good faith calculation of a statement of the Operating Earnings for the [***] period ending December 31, 2015 and the calculations used to determine the 2015 Earn-Out Amount (each, an "**Earn-Out Calculation Statement**"). The Earn-Out Calculation Statement shall set forth the Operating Earnings for the applicable period and shall be prepared in accordance with the provisions of this Agreement. Within 5 Business Days of any request by the Vendors' Representative, the Purchaser will give the Vendors' Representative and his accountants sufficient access to the books and records and working papers that the Company, the Purchaser and their accountants used in the preparation of the Earn-Out Calculation Statement that support each Earn-Out Calculation Statement; such information shall be provided to the Vendors' Representative to enable him to evaluate the relevant Earn-Out Calculation Statements.

(e) Subject to Section 3.3(f), within 30 days after delivery of an Earn-Out Calculation Statement referred to in Section 3.3(d) in respect of a particular period, the Purchaser or the Vendors, as applicable, will make any payment required by Sections 3.3(a), 3.3(b) or 3.3(c), as applicable. Any payment to be made to the Vendors shall be made in accordance with the payment instructions set forth in Section 3.2, unless the Vendors' Representative provides alternative payment instructions in writing to the Purchaser within 15 days prior to the date the payment is due.

(f) If the Vendors' Representative objects in good faith to any item of an Earn-Out Calculation Statement, the Vendors' Representative must so advise the Purchaser by delivering to the Purchaser a written notice (the "**Earn-Out Objection Notice**") within 30 days after the Vendors' Representative has received the Earn-Out Calculation Statement, provided that the Purchaser has complied with any request by the Vendors' Representative made pursuant to Section 3.3(d), failing which, absent fraud or intentional misrepresentation on the part of the Purchaser in connection with such Earn-Out Calculation Statement, the Vendors' Representative shall lose its right to object to, and be deemed to have accepted, the Earn-Out Calculation Statement. The Earn-Out Objection Notice must set out the reasons for the Vendors' Representative's objection as well as the amount in dispute and reasonable details of the calculation of such amount. The Vendors' Representative and the Purchaser will attempt to resolve through negotiations, which negotiations may be with or without prejudice at the election of Parties, all of the issues in dispute set out in any Earn-Out Objection Notice within 30 days of receipt of the Earn-Out Objection Notice by the Purchaser. Any issues in dispute not resolved within such 30 day period will be referred as soon as possible thereafter by the Vendors' Representative and the Purchaser to the Independent Auditor. The Independent Auditor will act as expert and not as arbitrator and will be required to determine the issues in dispute that have been referred to it as soon as reasonably practicable but in any event not later than 30 days after the date of referral of the dispute to it. In making its determination, the Independent Auditor will only consider the issues in dispute placed before it. The Vendors' Representative and the Purchaser will provide or make available all documents and information as are reasonably required by the Independent Auditor to make its determination. The determination of the Independent Auditor is final and binding on the Parties, and the Earn-Out Calculation Statement will be (or not be) adjusted in accordance with such determination. The fees and expenses of the Independent Auditor in acting in accordance with this Section 3.3(f) will be shared equally by the Purchaser and the Vendors, unless the Independent Auditor determines otherwise.

(g) The Parties hereby agree that each Earn-Out Amount paid to the Vendors under this Section 3.3 will be treated as a deferred portion of the Purchase Price. The Parties agree to take this position on all Tax Returns and exercise their respective good faith efforts to argue for this result; but nothing contained in this Agreement is considered a guaranty or indemnity by any Party of this or any tax treatment with respect to the Earn-Out Amount.

(h) In no event will the total Earn-Out Amounts exceed, in the aggregate, $50 million.

(i) During the period covering the earn-out period contemplated by this Agreement: (i) each of Questcor and the Purchaser agrees that it will operate in good faith with respect to the Earn-Out Amounts and will not take and not cause the Company to take any action with the intent to reduce the Earn-Out Amount realizable by the Vendors; (ii) each of the Vendors agrees that, to the extent they are a part of Company's management, they will not operate the Company with the intent to maximize the Operating Earnings during the earn-out period contemplated by this

Agreement in any manner that would be inconsistent with their fiduciary obligation to act in the best interest of the Company; (iii) Questcor and the Purchaser shall make good faith efforts to allow the Company to operate as a free-standing business consistent with the manner set out in the governance and management relationship letter between the Company and Questcor, dated as of the Closing (the "**Governance Document**"); and (iv) Questcor shall not (and shall cause its Affiliates not to) enter into any agreements or arrangements with the Company following the Closing Date providing for the Company to sell or supply the Questcor or its Affiliates with services or products at less than fair commercial rates. Furthermore, it is the intent of the parties that the Earn-Out Amounts will be based solely on the operations of the Company as it exists today and not include any operations of Company that are subsequently acquired from third parties, whether by merger, amalgamation or consolidation or acquisition, unless Questcor and the Vendors' Representative mutually agree otherwise. Any disputes shall be resolved in accordance with sub-section (m) of this Section 3.3.

(j) In the event Questcor (or any of its subsidiaries), in its sole discretion and without the approval by the Vendors' Representative materially changes, proposes to materially change, or causes a material change to, the executive management, the business, accounting policies or methods, or operations (other than changes necessary in maintaining compliance, or bringing the Company into compliance, with applicable Law) of the Company from those in effect immediately prior to the Closing Date (any such material change or proposed material change, a "**Change**"), Questcor shall notify Vendors' Representative in writing and if Vendors' Representative reasonably believes that any such Change is likely to decrease the amount of the Earn-Out Amount that the Vendors would have earned absent such Change, Vendors' Representative may give written notice (the "**Change Notice**") to Questcor of such belief. In such event, Vendors' Representative and Questcor's Chief Financial Officer shall meet within thirty (30) days following the receipt by Questcor of such Change Notice to discuss in good faith (which discussions may be with or without prejudice at the election of Parties): (i) whether the Change was in accordance with the principles as set out in the Governance Document, (ii) whether the Change is likely to decrease the amount of the Earn-Out Amount paid to Vendors and (iii) whether any adjustments to the calculations used to determine the Earn-Out Amount are necessary in order to restore the Vendors' ability to earn a comparable Earn-Out Amount that would have been earned by the Vendors absent such Change. If the Purchaser and Vendors' Representative disagree if or to the extent any adjustments are necessary, or the nature of such adjustments, the dispute shall be resolved in accordance with sub-section (m) of this Section 3.3.

(k) In the event Questcor believes the management of the Company operated the Company with the intent to maximize the Operating Earnings during the earn-out period contemplated by this Agreement but failed to act in the best interest of the Company, Questcor shall notify Vendors' Representative in writing and Vendors' Representative and Questcor's Chief Financial Officer shall meet to discuss in good faith (which discussions may be with or without prejudice at the election of Parties): whether (i) management of the Company operated the Company with the intent to maximize the Operating Earnings during the earn-out period contemplated by this Agreement but failed to act in the best interest of the Company, (ii) the failure is likely to increase the amount of the Earn-Out Amount paid to Vendors and (iii) any adjustments to the calculations used to determine the Earn-Out Amounts are necessary in order to reduce the Earn-Out Amount to an amount that would have been earned by Vendors absent such failure. If the parties disagree if or to the extent any adjustments are necessary, or the nature of such adjustments, the dispute shall be resolved in accordance with sub-section (m) of this Section 3.3.

(l) Until the 2015 Earn-Out Amount, if any, has been paid, the Purchaser shall not amalgamate with the Company and no Change of Control shall occur without the consent of the Vendors' Representative, acting on behalf of the Vendors, which consent shall not be unreasonably withheld, delayed or conditioned.

(m) In the event of any controversy or dispute between the Parties hereto arising out of or relating to sub-sections (j) or (k) of this Section 3.3, if no resolution is reached within 30 days following the date on which one Party first notifies the other of his or its request that such a meeting be held, then, and in that event, the controversy or dispute shall be referred to and determined by final and binding arbitration before a single arbitrator pursuant to the *International Commercial Arbitration Act*, R.S.O. 1990 (Ontario) and the procedures set out in Schedule 3.3(m) to this Agreement. The seat of the arbitration shall be Ontario and the hearing shall be conducted in the City of Toronto.

(n) Within 30 days of Closing, the Purchaser shall cause the Company to change its fiscal year end to December 31 and shall ensure that the Company's fiscal year remains December 31 until at least January 1, 2016, unless the consent of the Vendors' Representative is obtained to change to a different fiscal year, which consent shall not be unreasonably withheld, delayed or conditioned.

3.4 Purchase Price Adjustments

Notwithstanding anything else in the Agreement the Purchase Price is reduced by (i) the amount of any third party funding that the Company may be required to re-pay due to the failure to obtain the consent or consents relating to the agreements referenced in paragraph 1 of Section 4.8 of the Disclosure letter, which amount, if any, shall be held back by Purchaser pending the Vendors obtaining such consent or consents prior to the Company being required to make (and actually making) such repayment, and (ii) the amount of any indemnity claims paid to the Purchaser pursuant to Article 11.

3.5 Payments

Any payment required to be made by the Purchaser to the Vendors will be made by wire transfer of immediately available funds to Stewart McKelvey, in trust. Any payment required to be made by the Vendors to the Purchaser shall be made by wire transfer of immediately available funds to a bank account designated in writing by the Purchaser. Notwithstanding anything in this Agreement to the contrary, the Purchaser shall be entitled to deduct and withhold from the consideration otherwise payable to any Person pursuant to this Agreement any amount as may be required to be deducted and withheld with respect to the making of such payment under any provision of any Tax Law. To the extent that amounts are so withheld or deducted by the Purchaser, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to such person in respect of which such deduction and withholding was made by the Purchaser.

3.6 Tax Election

The Parties agree that the consideration for the agreement by the Vendors not to compete in accordance with the terms of the non-competition agreement referenced in Articles 7 and 8 hereof (the "**Non-Compete Covenant**") is included in the Purchase Price for the Purchased Shares. In accordance with the requirements of the *Income Tax Act* (Canada), the regulations thereunder, the administrative practice and policy of the Canada Revenue Agency and any applicable equivalent or corresponding provincial or territorial legislative, regulatory and administrative requirements, the Vendors and the Purchaser shall make and file, in a timely manner, a joint election(s) under subsection 56.4(3)(c) of the *Income Tax Act* (Canada), and any equivalent or corresponding provision under applicable provincial or territorial tax legislation to not have the rules in subsection 56.4(2) and any equivalent or corresponding provision under applicable provincial or territorial tax legislation, apply in respect of the Non-Compete Covenant. The Parties shall prepare and file their respective tax returns in a manner consistent with subsection 56.4(9). If a Party fails to file its tax returns in such manner, it shall indemnify and save harmless the other Parties in respect of any resulting taxes and legal and accounting expenses paid or incurred by the other Party.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF THE VENDORS AND THE COMPANY

The Vendors and the Company jointly and severally represent and warrant to the Purchaser the matters set out below, subject to such exceptions as are specifically disclosed in the disclosure letter from the Vendors addressed to the Purchaser and dated as of the date of this Agreement, and as of the Closing, as though made at the Closing (except where a representation or warranty is made herein as of a specified date, as of such date) (the "**Disclosure Letter**").

4.1 Incorporation and Corporate Power of the Company and its Subsidiaries

The Company is a corporation duly incorporated and validly existing under the laws of Prince Edward Island and has all necessary corporate power, authority and capacity to own its assets and to carry on its business as presently conducted. Each of the Subsidiaries is a corporation duly incorporated and validly existing under the laws of its jurisdiction of incorporation and has all necessary corporate power, authority and capacity to own its assets and to carry on its business as presently conducted.

4.2 Registration

Neither the nature of the Company's business nor the location or character of the assets owned or leased by the Company requires it to be registered, licensed or otherwise qualified as an extra-provincial or foreign corporation in any jurisdiction other than in the Province of Prince Edward Island where it is duly registered, licensed or otherwise qualified for such purpose and other than jurisdictions where the failure to be so registered, licensed or otherwise qualified does not have a Material Adverse Effect. Neither the nature of its business nor the location or character of the assets owned or leased by any of the Subsidiaries requires it to be registered, licensed or otherwise qualified as an extra-provincial or foreign corporation in any jurisdiction other than jurisdictions where the relevant Subsidiary is duly registered, licensed or otherwise qualified for such purpose and other than jurisdictions where the failure to be so registered, licensed or otherwise qualified does not have a Material Adverse Effect.

4.3 Residence of the Vendors

Other than Earl Duffy, none of the Vendors is a non-resident of Canada for the purposes of the *Income Tax Act* (Canada).

4.4 Subsidiaries

The Subsidiaries listed in Section 4.4 of the Disclosure Letter are all of the Subsidiaries of the Company. The Company is the sole registered and beneficial owner of all of the issued and outstanding shares in the capital of each of the Subsidiaries, free and clear of all Encumbrances. Except as disclosed in Section 4.4 of the Disclosure Letter, the Company does not own, or have any interest in any shares or have an ownership interest in any other Person other than its shareholdings in the Subsidiaries.

4.5 Status of the Vendors and Right to Sell

(a) The Vendors are, together, the sole registered owners and, other than the beneficiaries under the 2012 BV Employee Share Ownership Trust, the sole beneficial owners of the Purchased Shares free and clear of all Encumbrances.

(b) Each Vendor has the exclusive right to dispose of the Purchased Shares as provided in this Agreement and such disposition will not violate, contravene, breach or offend against or result in any default under any Contract, charter, share term provision, by-law provision, trust document, Order, judgment, decree, licence, permit or Law, to which the Vendors are a party or subject or by which the Vendors are bound or affected.

(c) The Purchased Shares are not subject to the terms of any shareholder agreement, other than those disclosed in Section 4.5 of the Disclosure Letter.

4.6 Capitalization

Section 4.6 of the Disclosure Letter sets forth the authorized and issued share capital of the Company and the Subsidiaries and a true, correct and complete list of all the Company's and each Subsidiaries' shareholders and the number of shares owned by each shareholder. All of the Purchased Shares and all of the shares in the Subsidiaries have been duly and validly issued and are outstanding as fully paid and non-assessable shares. No options, warrants or other rights to purchase shares or other securities of the Company or any of the Subsidiaries and no securities or obligations convertible into or exchangeable for shares or other securities of the Company or any of the Subsidiaries have been authorized or agreed to be issued or are outstanding.

4.7 Due Authorization and Enforceability of Obligations

The Vendors and the Company have all necessary power, authority and capacity to enter into this Agreement and to carry out their respective obligations under this Agreement. This Agreement constitutes, and each other agreement to be executed by the Vendors or the Company in connection with the Closing will constitute, a valid and binding obligation of the Vendors or the Company, as the case may be, enforceable against them in accordance with its terms.

4.8 Absence of Conflicts

Except for the Restricted Rights that are listed at Section 4.8 of the Disclosure Letter, neither the Company nor any of the Subsidiaries is a party to, bound or affected by or subject to any:

(a) Contract;

(b) charter, by-law or share term provision; or

(c) Laws or Governmental Authorizations,

that would be violated, breached by, or under which default would occur or an Encumbrance would be created, or in respect of which the obligations of the Company or any of the Subsidiaries will increase or the rights or entitlements of the Company or any of the Subsidiaries will decrease or any obligation on the part of the Company or any of the Subsidiaries to give notice to any Governmental Authority will arise, as a result of the execution and delivery of, or the performance of obligations under, this Agreement or any other agreement to be entered into under the terms of this Agreement. Except as disclosed in, or pursuant to, the provisions of this Agreement, Section 4.8 of the Disclosure Letter or in the ordinary course of business, there has been no sale, assignment, subletting, licensing or granting of any rights in or other disposition of or in respect of any of the Company’s or any of the Subsidiaries' assets or any granting of any Contract or right capable of becoming an agreement or option for the purchase, assignment, subletting, licensing or granting of any rights in or other disposition of any of such assets.

4.9 Regulatory Approvals

(a) No approval, Order, consent of or filing with any Governmental Authority is required other than consents from any Governmental Authorities as set out on Schedule 7.3 and other than notices to any Governmental Authorities as set out in Section 4.43 of the Disclosure Letter on the part of the Company or any of the Subsidiaries, in connection with the execution, delivery and performance of this Agreement or any other documents and agreements to be delivered under this Agreement or the performance of the Vendors’ obligations under this Agreement or any other documents and agreements to be delivered under this Agreement.

(b) Neither the book value of the assets of the Company (including assets of entities controlled by the Company), nor the gross revenues from sales in or from Canada generated from such assets, exceed $77 million, in each case calculated in accordance with the *Competition Act* (Canada) and the regulations enacted thereunder.

4.10 *Investment Canada Act* (Canada)

Neither Company nor any of the Subsidiaries is engaged in any of the activities described in section 14.1(5) of the *Investment Canada Act* (Canada).

4.11 Financial Statements

The Financial Statements are set forth in Section 4.11 of the Disclosure Letter and have been made available to the Purchaser. Except as set forth in Section 4.11 of the Disclosure Letter, the Financial Statements have been prepared in accordance with GAAP

applied on a basis consistent with that of the preceding period and present fairly:

(a) all of the assets, liabilities and financial position of the Company and its Subsidiaries on a consolidated basis as at August 31, 2012; and

(b) the sales, earnings, results of operation and changes in financial position of the Company and its Subsidiaries on a consolidated basis for the 12-month period ended August 31, 2012.

The Company maintains internal accounting controls sufficient to provide reasonable assurance that (i) the Company does not maintain any off-the-book accounts and that its assets are used in accordance with the Company's management directives; (ii) transactions are executed with management's authorization; (iii) transactions are recorded as necessary to permit preparation of the Financial Statements of the Company and to maintain accountability for the Company's assets; and (iv) Accounts Receivable, notes and other receivables and work in process Inventories are recorded accurately, and proper and adequate procedures are implemented to effect the collection of Accounts Receivable, notes and other receivables on a current and timely basis. The reserves and Accrued Liabilities disclosed on or reflected in the Financial Statements and the Books and Records, are recorded in amounts equal to the liabilities in respect of which they have been established.

4.12 Absence of Undisclosed and Contingent Liabilities

Neither the Company, nor any of the Subsidiaries has incurred any liabilities (whether accrued, absolute, contingent or otherwise) that continue to be outstanding including any guarantee, surety or indemnity in respect of indebtedness, or other obligations, of any Person, or any other commitment by which the Company is, or is contingently, responsible for such indebtedness or other obligations, except (a) as disclosed in the Financial Statements; (b) as disclosed on Section 4.12 of the Disclosure Letter; or (c) as incurred in the ordinary course of business.

4.13 Absence of Changes and Unusual Transactions

Since the date of the Balance Sheet:

(a) there has not been any Material Adverse Effect;

(b) there has not been any damage, destruction, loss, virus or denial of service attack, Information Technology failure, labour dispute, organizing drive, application for certification or other event, development or condition of any character (whether or not covered by insurance) that has a Material Adverse Effect;

(c) there has not been any change in the level or value of Inventories outside the ordinary course of business of the Company or of any of the Subsidiaries;

(d) neither the Company, nor any of the Subsidiaries have transferred, assigned, sold or otherwise disposed of any of the assets shown or reflected in the Balance Sheet or cancelled any debts or entitlements except, in each case, in the ordinary course of business;

(e) neither the Company, nor any of the Subsidiaries have discharged or satisfied any Encumbrance, or paid any obligation or liability (fixed or contingent) other than liabilities included in the Balance Sheet and liabilities incurred since the date of the Balance Sheet in the ordinary course of business;

(f) neither the Company, nor any of the Subsidiaries have suffered an operating loss or any unusual or extraordinary loss, waived or omitted to take any action in respect of any rights, or entered into any commitment or transaction not in the ordinary course of business where such loss, rights, commitment or transaction is or would be material in relation to the Company;

(g) other than annual general salary increases made on or about November 1, 2012 and bonuses and profit sharing payments made on or about November 22, 2012, all as set out in Section 4.32(a) of the Disclosure Letter, neither the Company, nor any of the Subsidiaries have granted any bonuses, whether monetary or otherwise, or made any general wage or salary increases in respect of its Employees or changed the terms of employment for any Employee or entered into a written contract with any Employee;

(h) neither the Company, nor any of the Subsidiaries have (i) made any material amendments to any Benefit Plan; (ii) established or promised to establish any additional benefit plans which would be considered to be a Benefit Plan once created; or (iii) changed or improved or promised to change or improve the benefits provided under any Benefit Plan;

(i) neither the Company, nor any of the Subsidiaries have hired or dismissed any senior Employees or hired or dismissed more than 20 Employees;

(j) except in the ordinary course of business or as set out in Section 4.13(j) of the Disclosure Letter, neither the Company, nor any of the Subsidiaries have, directly or indirectly, engaged in any transaction, made any loan or

entered into any arrangement with any officer, director, partner, shareholder, Employee (whether current or former or retired), consultant, independent contractor or agent of the Company or any of the Subsidiaries;

(k) neither the Company, nor any of the Subsidiaries have, except for Permitted Encumbrances, created or permitted to exist any Encumbrance affecting any of its assets or Real Property;

(l) except in the ordinary course of business, neither the Company, nor any of the Subsidiaries have changed the manner of billing of, or the credit lines made available to, any of its customers;

(m) other than monthly dividends paid to Lauren Holdings Inc., neither the Company, nor any of the Subsidiaries have, directly or indirectly, declared or paid any dividends or declared or made any other payments or distributions on or in respect of any of its shares and has not, directly or indirectly, purchased or otherwise acquired any of its shares; and

(n) neither the Company, nor any of the Subsidiaries have authorized, agreed or otherwise become committed to do any of the foregoing.

4.14 Non-Arm's Length Transactions

No director or officer, former director or officer, shareholder or Employee of, or any other Person not dealing at arm's length with the Company or any of the Subsidiaries or the Vendors is engaged in any transaction or arrangement with or is a party to a Contract with, or has any indebtedness, liability or obligation to, the Company or any of the Subsidiaries, except as set out in Section 4.14 of the Disclosure Letter or for employment arrangements with Employees, the terms of which are disclosed in Section 4.32 of the Disclosure Letter.

4.15 No Joint Venture Interests or Strategic Alliances

Except as set out in Section 4.15 of the Disclosure Letter, neither the Company nor any of the Subsidiaries is a party to any material strategic alliance or co-operative agreement and is not a partner, beneficiary, trustee, co-tenant, joint-venturer or otherwise a participant in any partnership, trust, joint venture, co-tenancy or similar jointly owned business undertaking and neither the Company nor any of the Subsidiaries have any significant investment interests in any business owned or controlled by any third party.

4.16 Major Suppliers and Customers

Section 4.16 of the Disclosure Letter sets forth a comprehensive listing of each supplier of goods and services to, and each customer of, the Company or any of the Subsidiaries to whom the Company and the Subsidiaries paid or billed in excess of $50,000 in the aggregate during the 12-month period ending August 31, 2012, together with, in each case, the amount so billed or paid. Since September 1, 2011, there has been no termination or material adverse modification or change in the business relationship with any such supplier or customer. No such supplier or customer has informed the Vendors of any intention to change its relationship or the terms upon which it conducts business with the Company or any of the Subsidiaries as a result of a sale of the Company (by change of control or otherwise). There is not currently any dispute pending, or to the knowledge of the Vendors, threatened, between the Company or any of the Subsidiaries and any such customer or supplier.

4.17 Sufficiency of Assets

The Real Property, Real Property Leases, Tangible Personal Property, Equipment Contracts, Appurtenances, Accounts Receivable, Intellectual Property, Technology, Environmental Approvals, Governmental Authorizations, Improvements, Inventories of the Company and the Subsidiaries and equipment of customers of the Company or any of its Subsidiaries located on the Real Property for use by the Company or any of its Subsidiaries, which equipment is listed in Section 4.17 of the Disclosure Letter, are sufficient for the continued conduct of the Company's and the Subsidiaries' businesses after the Closing in substantially the same manner as conducted prior to the Closing.

4.18 Title to Certain Assets

Except with respect to Intellectual Property, Technology and Real Property, each of the Company and the Subsidiaries are the sole legal and beneficial and (where its interests are registrable) the sole registered owners of all of its assets and interests in its assets, with good and valid title, free and clear of all Encumbrances other than Permitted Encumbrances.

4.19 Condition of Certain Assets

The Tangible Personal Property is in good condition, repair and (where applicable) proper working order, having regard to its use and age and such assets have been properly and regularly maintained. All leases of Tangible Personal Property are in full force and effect unamended and have been made available to the Purchaser. All such leases are in good standing and there are no outstanding defaults on the part of the Company or any of the Subsidiaries or, to the knowledge of the Vendors, on the part of any other party thereto. All Tangible Personal Property of the Company or any of the Subsidiaries is used, operated, maintained and functions in accordance with all applicable Laws.

4.20 Location of the Assets

All of the assets of the Company and the Subsidiaries are located on the Real Property.

4.21 Inventories

(a) All Inventories are valued on the books of the Company and the Subsidiaries in accordance with GAAP at the lower of average cost or net realizable value. Inventories of finished goods are saleable and all other Inventories are merchantable or usable and all Inventories are in quantities usable or saleable in the ordinary course of business prior to the date hereof, except as reserved for in the Balance Sheet. The Inventory levels have been maintained at the amounts required for the operations of the Company and the Subsidiaries as previously conducted and such Inventory levels are adequate for such operations. The Inventories of finished goods conform in all respects with their respective specifications and all published representations and warranties and have been, where required, tested, manufactured, processed, packaged, labelled, and stored in accordance with the requirements of applicable GMPs. The Company does not have knowledge of any supply issues, pending or threatened, that would prohibit the Company or any of the Subsidiaries from obtaining the Inventories necessary to carry on the business in the ordinary course.

(b) All inventories owned by customers of the Company that are located or stored at the Real Property are stored and segregated properly and in accordance with the terms of any agreement between the Company and such customers, and the Company maintains policies of insurance that will cover any losses associated with such inventories.

4.22 Collectability of Accounts Receivable

All Accounts Receivable are recorded in the financial records of the Company and the Subsidiaries. Except as set out in Section 4.22 of the Disclosure Letter, the Accounts Receivable are good and collectible at the aggregate recorded amounts, except to the extent of any reserves and allowances for doubtful accounts provided for such Accounts Receivable in the Books and Records, and are not subject to any defence, counterclaim or set off. The Accounts Receivable reflected on the Balance Sheet have arisen from bona fide transactions in the ordinary course of the business of the Company and the Subsidiaries and are valid obligations of the respective makers thereof consistent with past practice, are not subject to any pledge, dispute, defence, set-off or other Claim and are collectable in the ordinary course consistent with past practice, net of reserves shown on the Balance Sheet, and no further goods or services must be provided in order to complete the sales and to entitle the Company or any of the Subsidiaries to collect. Except for Permitted Encumbrances, none of such Accounts Receivable have been pledged or assigned to any other Person.

4.23 Government Grants

Section 4.23 of the Disclosure Letter sets forth a complete list of all Contracts or agreements relating to grants or other forms of assistance, including loans received by the Company or any of the Subsidiaries, from any Governmental Authority.

4.24 Business in Compliance with Law

The operations of the Company and the Subsidiaries have been and are now conducted in compliance with all Laws of each jurisdiction the Laws of which have been and are now applicable to the business or products of, or products produced by, the Company or any Subsidiary, including any such Laws enforced by Health Canada, the U.S. Food and Drug Administration and comparable foreign Governmental Authorities including applicable GMPs and neither the Company, nor any of the Subsidiaries have received any notice of any alleged violation of any such Laws. The Company and the Subsidiaries have developed and implemented corporate policies and procedures designed to provide for compliance in all material respects with applicable Laws and have complied with such policies and procedures in all material respects. Except as set forth in Section 4.24 of the Disclosure Letter or as related to workers' compensation matters, there are no, and there have not during the last five years been any, adverse or negative past performance evaluations or ratings by any Governmental Authority relating to the business or products of the Company and the Subsidiaries that have been communicated to the Company or any of the Subsidiaries. Since January 1, 2007, there has not been, nor is there currently under consideration by the Company, or to the knowledge of the Company, any supplier, third-party manufacturer, finished product manufacturer, component manufacturer, vendor, agent, or distributor of any product for the Company, or to the knowledge of the Company, any Government Authority, any recall, market withdrawal, product correction, stock recovery, safety alert or other warning or notice that any product designed, manufactured, marketed, sold, leased, licensed or delivered with respect to the Company's business or products is defective or unsafe or fails to meet any regulations or standards promulgated or issued by any Government Authority (whether voluntary or involuntary or whether at the request of a Government Authority or at the direction of the Company). Since January 1, 2007, to the knowledge of the Company, no event has occurred and no circumstances exist that (with or without notice or lapse of time) would reasonably be expected to result in any such liability or recall, withdrawal, product correction, stock recovery, safety alert or other warning or notice.

4.25 Governmental Authorizations

Section 4.25 of the Disclosure Letter sets forth a complete list of the Governmental Authorizations, other than the Environmental Approvals that are listed in Section 4.30 of the Disclosure Letter, and, except for certain portions of such Governmental

Authorizations which have been redacted to protect customer proprietary information, true and complete copies of such authorizations have been delivered or made available to the Purchaser. The Governmental Authorizations listed in Section 4.25 and 4.30 of the Disclosure Letter are all the authorizations required by the Company and the Subsidiaries to enable it to carry on its businesses in compliance with all Laws. Such Governmental Authorizations are valid, in full force and effect in accordance with their terms, and no event has occurred or circumstance exists that (with or without notice or lapse of time) may constitute or result in a violation or default of any such Governmental Authorization or that gives others any right of termination, amendment or cancellation of any such Government Authorizations or that gives rise to an obligation on the part of the Company or any of the Subsidiaries to undertake or bear any cost. No proceedings are pending or, to the knowledge of the Vendors, threatened and no event has occurred or facts exist that could result in their revocation, cancellation, non-renewal, adverse modification or limitation and all steps have been taken and filings made on a timely basis with respect to each Governmental Authorization and its renewal. The Company and its Subsidiaries are in compliance with all material respects with the terms of the Governmental Authorizations. The Vendors have made available to the Purchaser all warning letters, inspection and audit reports and similar written correspondence relating to any Governmental Authorizations received from Health Canada or comparable foreign Governmental Authority, all internal assessments and audit reports generated by the Company as a result of correspondence by Governmental Authorities, and any responses relating to the Company's compliance or non-compliance with the Governmental Authorizations. Neither the Company, nor to the knowledge of the Company, any of its Employees has been or, as of the date hereof, is the subject of a notice, action or proceeding that has subjected or could reasonably subject the Company to permissive or mandatory disqualification, debarment or exclusion by any Governmental Authority from participation in federal (Canadian or U.S.) healthcare programs, and no such disqualification, debarment, suspension, or exclusionary claims, actions, proceedings or investigations are pending or, to the knowledge of the Company, threatened against any of it.

4.26 Intellectual Property

(a) Section 4.26(a) of the Disclosure Letter sets forth a complete list and a brief description of all Intellectual Property that has been registered, or for which applications for registration have been filed, by or on behalf of the Company or any of the Subsidiaries.

(b) The Company manufactures products using proprietary and customer processes. All Contracts relating to any of the Intellectual Property material to the business of the Company have been made available to the Purchaser and are in full force and effect and no default exists on the part of the Company or any of the Subsidiaries or, to the knowledge of the Company or any of the Subsidiaries, on the part of the other parties thereto.

(c) Section 4.26(c) of the Disclosure Letter sets forth a complete list and brief description of the Intellectual Property of which the Company or any of the Subsidiaries licenses in and pays a royalty. The Company uses proprietary customer Intellectual Property provided to the Company by its customers to manufacture their products. The Company and the Subsidiaries are using or holding the Intellectual Property of which it is not the sole beneficial and registered owner with the consent of or a licence from the owner of such Intellectual Property, all of which such consents or licences have been made available to the Purchaser and are in full force and effect and no default exists on the part of the Company or any of the Subsidiaries or, to the knowledge of the Company, on the part of any of the parties thereto.

(d) Except as disclosed in Section 4.26(d) of the Disclosure Letter:

(i) all of the Intellectual Property owned by the Company is in full force and effect and has not been used or enforced or failed to be used or enforced in a manner that would result in its abandonment, cancellation or unenforceability;

(ii) all Intellectual Property owned by the Company consisting of issued registrations, or in the case of inventions, issued patents, is valid and enforceable;

(iii) there are no Claims by the Company or any of the Subsidiaries relating to breaches, violations, infringements or interferences with any of the Intellectual Property by any other Person and the Company has no knowledge of any facts upon which such a Claim could be based;

(iv) to the Company’s knowledge no other Person is using any of the Intellectual Property so as to breach, violate, infringe or interfere with the rights of the Company or any of the Subsidiaries;

(v) to the Company’s knowledge the carrying on of the Company’s and any of the Subsidiaries' business and the use, possession, reproduction, distribution, sale, licensing, sublicensing or other dealings involving any of the Intellectual Property does not breach, violate, infringe or interfere with any rights of any other Person; and

(vi) the Intellectual Property does not include any Intellectual Property in respect of which any of the Company’s or any of the Subsidiaries' officers, Employees or consultants have any rights. All current and former officers, Employees and consultants have assigned in writing all of their rights in the Intellectual Property either to the Company or to any of the Subsidiaries and have waived in writing any moral rights that they may hold in any assets consisting of copyrighted works.

4.27 Equipment Contracts

Section 4.27 of the Disclosure Letter sets forth a complete list of all Equipment Contracts, which have been made available to the Purchaser, together with a description of the Tangible Personal Property to which the Equipment Contracts relate. The Equipment Contracts listed in Section 4.27 of the Disclosure Letter are all those used to earn the revenue shown on the Financial Statements. All of the Equipment Contracts are in full force and effect unamended, and there are no outstanding defaults (or events that would constitute a default with the passage of time or giving of notice or both) under the Equipment Contracts on the part of the Company or any of the Subsidiaries or, to the knowledge of the Vendors, on the part of any of the other parties thereto. The interests of the Company and the Subsidiaries under each of the Equipment Contracts is held free and clear of any Encumbrance except Permitted Encumbrances, and all payments due under the Equipment Contracts have been duly and punctually paid.

4.28 Owned Real Property

(a) Section 4.28(a) of the Disclosure Letter sets forth a complete list of the Owned Real Property in each case by reference to the owner, municipal address and legal description.

(b) Except as disclosed in Section 4.28(b) of the Disclosure Letter:

(vii) the Company or the named Subsidiary, as the case may be, is the legal and beneficial owner of the Owned Real Property in fee simple, with good and marketable title thereto, free and clear of all Encumbrances other than Permitted Encumbrances; and

(viii) there are no Contracts that affect or relate to the title to, or ownership, operation or management of, the Owned Real Property.

(c) The lands owned by the Company and the Subsidiaries and the buildings and other structures located thereon and the use, operation and maintenance thereof as now used, operated and maintained, comply with all applicable Laws. None of the buildings or other structures encroaches upon any lands not owned by the Company, and there is no encroachment onto such lands by buildings or other structures from any adjoining lands. There are no restrictive covenants, municipal by-laws or other laws or regulations that in any way, individually or in the aggregate, cause a Material Adverse Effect on the use of the lands, buildings or structures for the purposes for which they are currently being used, or that restrict the use of such lands, buildings or other structures so that they cannot lawfully be used for the purposes for which they are currently being used.

4.29 Leased Real Property

(a) Section 4.29(a) of the Disclosure Letter sets forth a complete list of the Leased Real Property and details for each Leased Real Property including: (i) municipal address; (ii) legal description; (iii) area of premises; (iv) a description of all relevant documents (including amendments, extension notices, registered notices, non-disturbance agreements) including details of parties thereto and dates of documents; and (v) details of annual rent payable, applicable discounts or premiums associated therewith, current terms, renewal rights and security deposits or prepaid rent. The Company has heretofore delivered or made available to the Purchaser true, correct and complete fully executed copies of all written leases of the Leased Real Property, including all material modifications, amendments and supplements thereto and waivers thereunder.

(b) Except as disclosed in Section 4.29(b) of the Disclosure Letter, the Real Property Leases have not been altered or amended and are in full force and effect. There are no Contracts between the landlord and tenant, or sublandlord and subtenant, or other relevant parties relating to the use and occupation of the Leased Real Property, other than as contained in the Real Property Leases.

(c) There are no outstanding defaults (or events that would constitute a default with the passage of time or giving of notice or both) under the Real Property Leases on the part of the Company or any of the Subsidiaries or, to the knowledge of the Vendors, on the part of any other party to such Real Property Leases.

(d) All interests held by the Company or any of the Subsidiaries as lessee or occupant under the Real Property Leases are free and clear of all Encumbrances other than Permitted Encumbrances.

(e) Neither the Company nor any of the Subsidiaries have any option, right of first refusal or other right relating to the Leased Real Property, other than as set out in the Real Property Leases.

(f) Neither the Company, nor any of the Subsidiaries have waived, or omitted to take any action in respect of any material rights under any of the Real Property Leases.

4.30 Real Property Generally

(a) True and complete copies of: (i) deeds, any title insurance policies, any certificates of title, title opinions, any

summaries or memoranda relating to title to the Real Property, (ii) any appraisals, valuations or other information evidencing the assessed value and/or market value of the Real Property, (iii) any surveys, real property reports, reference plans, aerial photographs, site plans, (iv) any reports or findings relating to building inspections, roof conditions, structural elements, services or other physical conditions of the Improvements and Real Property, (v) reports or summaries relating to the proposed 2013 capital expenditure budgets or programs, (vi) materials evidencing Encumbrances and Appurtenances, and (vii) materials relating to work orders, notices or violation or deficiency notices affecting the Real Property, in each case within the possession or control of the Company and/or its Subsidiaries, have been delivered or made available to the Purchaser.

(b) The Improvements are in good condition, repair and proper working order, having regard to their use and age and such assets have been properly and regularly maintained.

(c) Each Owned Real Property has direct legal access to a municipal right-of-way and the Company and the Subsidiaries otherwise have such rights of entry and exit to and from the Real Property as are reasonably necessary to carry on the business of the Company and the Subsidiaries upon the Real Property.

(d) No Person has any right to purchase, option to purchase, right of first refusal or other rights with respect to any of the Real Property other than the Purchaser pursuant to this Agreement, and no Person other than the Company or a Subsidiary is using or has any right to use, or is in possession or occupancy of, any part of such Real Property.

(e) Neither the Company, nor any of the Subsidiaries have entered into any agreement to sell, transfer, encumber, or otherwise dispose of or impair the right, title and interest of the Company or any of the Subsidiaries in and to the Real Property or the air, density and easement rights relating to the Real Property, except Permitted Encumbrances and as set out in Section 4.31 of the Disclosure Letter.

(f) Neither the Company, nor any of the Subsidiaries have received any notification of and the Vendor has no knowledge of, any outstanding or incomplete work orders, deficiency notices or other current non-compliance with Laws relating to any of the Real Property.

(g) The current uses of the Real Property are permitted under current zoning and land use regulations and Laws. None of the Company or any of the Subsidiaries has made application for any minor variance or amendments to zoning by-laws or official plans in respect of the Real Property and the Vendor has no knowledge of any proposed or pending changes to any zoning regulation or official plan affecting the Real Property.

(h) No part of the Real Property is subject to any building or use restriction that restricts or would restrict or prevent the use and operation of the Real Property as it has been used or operated in the ordinary course in the past by the Company and the Subsidiaries or is located in a flood plain or is subject to flooding.

(i) No Improvements encroach on real property not forming part of the Real Property and no buildings, structures or other improvements on adjoining lands encroach upon the Real Property.

(j) The Vendor has no knowledge of any expropriation or condemnation or similar proceeding pending or threatened against the Real Property or any part of the Real Property.

(k) Subject to statutory hold backs required by Law and except for the construction of Improvements now underway, all accounts for work and services performed or materials placed or furnished upon or in respect of the construction and completion of any Improvements have been fully paid and no one is entitled to claim a lien under applicable construction lien Laws or other similar legislation for such work performed by or on behalf of the Company or any of the Subsidiaries.

(l) The Real Property is fully serviced (including water, storm and sanitary sewer and electrical service) to a level sufficient to permit the operation of the business of the Company and the Subsidiaries to be carried on after Closing as it has been carried on in the ordinary course by the Company and the Subsidiaries. Except as set out in Section 4.31(l) of the Disclosure Letter, all municipal levies, local improvements, imposts and permit fees due and payable prior to the Closing Date have been or shall be paid by the Company and the Subsidiaries as at the Closing Date.

(m) There are no outstanding defaults (or events which would constitute a default with the passage of time or giving of notice or both) under the Permitted Encumbrances on the part of the Company or any of the Subsidiaries or on the part of any other party to such Permitted Encumbrances.

(n) All Appurtenances necessary for the continued use and operation of the Real Property as it has been used by the Company or any of the Subsidiaries in the ordinary course in the past, are listed in Section 4.30 of the Disclosure Letter and none of the Contracts creating or governing such Appurtenances require the consent of any other party to the transactions contemplated by this Agreement.

(o) There are no matters affecting the right, title and interest of the Company or any of the Subsidiaries in and to the

Real Property which, in the aggregate, would materially and adversely affect the ability of the Company or any of the Subsidiaries after the Closing Date to carry on the business upon the Real Property as it has been carried on in the ordinary course by the Company and the Subsidiaries.

4.31 Environmental Matters

(a) All Environmental Approvals have been obtained, are valid and in full force and effect, have been and are being complied with, and there have been and are no applications made or proceedings commenced or threatened to revoke, suspend, amend or alter any Environmental Approval. Section 4.31 of the Disclosure Letter sets forth a complete list of such Environmental Approvals and true and complete copies of all such approvals have been delivered or made available to the Purchaser. Where required by Law, true and complete copies of all such approvals are located at the operating site to which the approval relates. Neither the Company nor any of the Subsidiaries have received any notice of any intention to revoke, suspend, amend or alter any Environmental Approval and there are no circumstances that exist that could result in the revocation, suspension, amendment or alteration of any Environmental Approval.

(b) All operations of the Company and the Subsidiaries have been and are now in compliance with all Environmental Laws and any future Environmental Laws that, to the knowledge of the Vendors, are presently planned or proposed by any Governmental Authority and that could reasonably be expected to have a Material Adverse Effect. Neither the Company, nor any of the Subsidiaries have received any notice of any alleged violation of such Laws. Any Release by the Company or any of the Subsidiaries of any Hazardous Substance into the Environment complied and complies with all Environmental Laws. The Company and the Subsidiaries have developed and implemented corporate policies and procedures designed to provide for compliance in all material respects with applicable Environmental Laws and have complied with such policies and procedures in all material respects. There are no, and there have not during the last five years been any, adverse or negative past performance evaluations or ratings by any Governmental Authority in relation to Environmental Laws relating to the business or products of the Company or any of the Subsidiaries that have been communicated to the Company or any of the Subsidiaries.

(c) None of the Company, the Subsidiaries or any of their respective operations or any Real Property has been or is now the subject of any Environmental Order, nor do the Vendors have any knowledge of any investigation or evaluation commenced or threatened as to whether any such Environmental Order is necessary nor has any threat of any such Environmental Order been made. Neither the Company, nor any of the Subsidiaries has received any notice of any Environmental Order or any notice of intention to issue an Environmental Order nor are there any circumstances that could reasonably be expected to result in the issuance of any such Environmental Order.

(d) Neither the Company nor any of the Subsidiaries is currently being prosecuted for and has been prosecuted for or convicted of any offence under any Environmental Law, nor has the Company or any of the Subsidiaries been found liable in any proceeding or been required by any Environmental Order to pay any fine, penalty, damages, costs, expenses, amount or judgment to any Person as a result of any Release or threatened Release or as a result of the breach or contravention of any Environmental Law, and there is no basis for any such proceeding or action. Neither the Company, nor any of the Subsidiaries has received any Claim, summons or charge or any notice of any violation or Claim under or alleging any contravention of any Environmental Law or any notice of any intention to issue any Claim, summons, charge or notice of violation or contravention of any Environmental Law.

(e) No part of the Real Property or of any of the assets of the Company or any of the Subsidiaries or of any property currently or formerly owned, leased, used or occupied by or currently or formerly under the charge, management or control of the Company or any of the Subsidiaries has ever been used by the Company or any of the Subsidiaries as a landfill or for the disposal or deposit of waste. To the knowledge of the Vendors, no part of the Real Property or of any of the assets of the Company or any of the Subsidiaries or of any property currently or formerly owned, leased, used or occupied by or currently or formerly under the charge, management or control of the Company or any of the Subsidiaries has ever been used by any other Person as a landfill or for the disposal or deposit of waste.

(f) To the knowledge of the Company, there are no rare or endangered species or any other species that is considered extinct, endangered, rare or at risk or any habitat of any such species present at the Real Property, any part of the Real Property or any other of the assets of the Company or the Subsidiaries or any property currently used or occupied by or under the charge, management or control of the Company or any of the Subsidiaries.

(g) A list of all material environmental audits, data and studies (including any environmental site assessment or investigation) conducted in the last 3 years relating to the Company and the Subsidiaries have been delivered or made available to the Purchaser.

(h) Any Hazardous Substances present at the Real Property are stored and used in compliance with all Environmental Laws applicable to the Company and the Real Property.

(i) Except for the possibility that unintended or accidental discharges, spills or other releases of Hazardous Substances stored, used or handled at the Real Property may occur in the future, and except in circumstances where the

Hazardous Substances are not handled in accordance with generally accepted industry standards (the Vendors hereby representing that they have no knowledge of any such circumstances) the Hazardous Substances that are present in, on, at or under any of the Real Property or any other assets of the Company or of any of the Subsidiaries or any property currently or previously owned, leased, used or occupied by or currently or formerly under the charge, management or control of the Company (including underlying soils and substrata, vegetation, surface water and groundwater): (i) could not reasonably be expected to result in or form the basis for the issuance of an Environmental Order or a Claim under Environmental Laws; (ii) do not exceed decommissioning or remediation standards under any applicable Environmental Laws or standards published or administered by the Governmental Authority responsible for establishing or applying such standards; (iii) could not reasonably be expected to adversely effect, either directly or indirectly, the natural, physical, chemical or biological quality of the environment; or (iv) could not reasonably be expected to be injurious to the health or safety of a person or be damaging to property or to plant or animal life.

(j) No property currently or previously owned, leased, used or occupied by or currently or previously under the charge, management or control of the Company or any of the Subsidiaries has been registered as a contaminated site under Prince Edward Island's Contaminated Site Registry.

(k) No asbestos or asbestos containing materials or polychlorinated biphenyls (PCBs) or equipment, waste or other materials containing polychlorinated biphenyls (PCBs) are used, stored or otherwise present in, on or at any of the Real Property or any other assets of the Company or any of the Subsidiaries.

(l) There is no restriction on the use of any Real Property or any part of the Real Property or on the operation or scope of the operations of the Company or any of the Subsidiaries (except as may be apparent in any Environmental Approval listed in Section 4.31 of the Disclosure Letter) imposed pursuant to any Environmental Law, including any Environmental Order.

(m) There are no unused or abandoned underground or above ground storage tanks on, in, under or at the Real Property, and any above ground or underground storage tanks formerly on, in, under or at the Real Property have been removed and any affected soil, surface water or ground water has been remediated in compliance with all Laws, including Environmental Laws. All above ground and underground storage tanks currently on, in, under or at the Real Property have been inspected, repaired, maintained and, if required, replaced in compliance with all Laws, including Environmental Laws, and all generally accepted environmental management practices.

(n) The Vendors have no knowledge of any Hazardous Substance originating from any neighbouring or adjoining properties that has migrated onto, into or under or is migrating towards any of the Real Property or any other assets of the Company or any of the Subsidiaries.

(o) The Vendors have no knowledge of any Hazardous Substance originating from any of the property currently or formerly owned, leased, used or occupied by or any property currently or formerly under the charge, management or control of the Company or the Subsidiaries or any other current or former assets of the Company or of any of the Subsidiaries that has migrated onto, or is migrating towards any other property or that has been Released into the Environment in circumstances where it may move to any other property.

(p) Neither the Company, nor any of the Subsidiaries has given or agreed to give, or is a party to or bound by, any Contract, agreement, financial assurance, guarantee, surety or indemnity in respect of Environmental Approvals, Environmental Orders or any other matter relating to the Environment, other than covenants in customer Contracts requiring the Company to be in compliance with Environmental Laws.

4.32 Employment Matters

(a) Section 4.32(a) of the Disclosure Letter sets forth a complete and accurate list of the Employees, together with their titles, service dates and terms of employment, including current wages, salaries or hourly rate of pay, benefits, commissions and bonus (whether monetary or otherwise) or other material compensation paid since the beginning of the most recently completed fiscal year (including the date of payment) or payable to each such Employee and the date upon which each such term of employment became effective. Section 4.33(a) of the Disclosure Letter sets forth a description of the vacation entitlement policies of the Company. Section 4.32(a) of the Disclosure Letter also lists Employees on inactive status, including lay-off, short-term disability leave, long-term disability leave, pregnancy and parental leave or other extended absences, or receiving benefits pursuant to workers' compensation legislation, and specifies the last date of active employment, the reason for the absence and the expected date of return of each such Employee.

(b) A standard form of the Company's employment contract is included in Section 4.32(b) of the Disclosure Letter. Each of the Employees has signed such standard form employment contract, or another employment contract that is substantially the same and not materially less favourable to the Company, other than as disclosed in Section 4.32(b) of the Disclosure Letter. Except for those Employment Contracts listed in Section 4.32(b) of the Disclosure Letter, there are no Employment Contracts that are not terminable on the giving of reasonable notice in accordance with

applicable Law, nor are there any Employment Contracts providing for cash, other compensation, benefits or contingent rights on Closing. To the knowledge of the Vendors, no executive employed by the Company or any of the Subsidiaries has any plans to terminate his or her employment in the next 3 years.

(c) Standard form confidentiality agreements of the Company are included in Section 4.32(c) of the Disclosure Letter. Each of the Employee's has signed one of such standard form confidentiality agreements, or another confidentiality agreement that is substantially the same and not materially less favourable to the Company, other than as disclosed in Section of 4.32(c) the Disclosure Letter.

(d) There are no Claims, pending Claims nor, to the knowledge of the Vendors, threatened Claims pursuant to any Laws relating to the Employees or former employees, including employment standards, human rights, labour relations, occupational health and safety, workers' compensation, or pay equity. To the knowledge of the Vendors, nothing has occurred that might lead to a Claim under any such Laws. There are no outstanding decisions, Orders or settlements or pending settlements relating to the Employees that place any obligation upon the Company or any of the Subsidiaries to do or refrain from doing any act.

(e) All current assessments under workers' compensation legislation in relation to the Company and the Subsidiaries and all of its contractors and subcontractors have been paid or accrued. Neither the Company nor any of the Subsidiaries has been or is subject to any additional or penalty assessment under such legislation that has not been paid or has been given notice of any audit. The Company's and the Subsidiaries' accident cost experience is such that there are no pending nor, to the knowledge of the Company, potential assessments, experience rating changes or Claims that could adversely affect the Company's or any of the Subsidiaries' premium payments or accident cost experience or result in any additional payments in connection with the Company or any of the Subsidiaries.

(f) The Company has made available to the Purchaser for review all inspection reports, workplace audits or written equivalent, made under any occupational health and safety legislation that relate to the Company and the Subsidiaries for the last 3 years. There are no outstanding inspection Orders or written equivalent made under any occupational health and safety legislation that relate to the Company and the Subsidiaries. There have been no fatal or critical accidents in the last three years. To the knowledge of the Vendors, there are no materials present in the assets owned or used by the Company or any of the Subsidiaries, or conditions present in the businesses conducted by the Company or any of the Subsidiaries, exposure to which could result in a disease caused by employment or peculiar to or characteristic of such materials or conditions or characteristic of a particular industrial process, trade or occupation, including all occupational diseases, other than those materials used in the ordinary course of business for which monitoring controls and appropriate standard operating procedures apply. The Company and the Subsidiaries have complied in all respects with any Orders issued under any occupational health and safety legislation. There are no appeals of any Orders under any occupational health and safety legislation against the Company or any of the Subsidiaries that are currently outstanding.

4.33 Collective Agreements

None of the Company, the Subsidiaries or any Employee is a party to any collective agreement with any union. There are no outstanding or threatened labour board proceedings of any kind, including any proceedings which could result in certification of a trade union as bargaining agent for Employees, and there have not been any such proceedings within the last two years. There are no threatened or apparent union organizing activities involving any Employees. Neither the Company, nor any of the Subsidiaries has any serious labour problems that might lead to an interruption in the operations at any location.

4.34 Pension and Other Benefit Plans

(a) Section 4.34 of the Disclosure Letter sets forth a complete list of the Benefit Plans. No Benefit Plans are Multi-Employer Plans.

(b) Current and complete copies of all written Benefit Plans as amended to date or, where oral, written summaries of the terms thereof, and all booklets and communications concerning the Benefit Plans that have been provided to persons entitled to benefits under the Benefit Plans have been delivered or made available to the Purchaser together with copies of all material documents relating to the Benefit Plans, including all trust agreements, insurance policies, actuarial valuations, financial statements and all annual information returns or other returns filed with, and significant correspondence with, any Governmental Authority within the last three years in respect of the Benefit Plans.

(c) Each Benefit Plan is, and has been, established, registered, amended, funded, administered and invested in compliance with the terms of such Benefit Plan (including the terms of any documents in respect of such Benefit Plan), and all Laws, as applicable. Neither the Company, nor any of the Subsidiaries has received, in the last three years, any notice from any Person questioning or challenging such compliance, and the Vendors have no knowledge of any such notice beyond the last three years. There is no investigation by a Governmental Authority or Claim (other than routine claims for payment of benefits) pending or, to the knowledge of the Vendors, threatened

involving any Benefit Plan or their assets, and no facts exist that could reasonably be expected to give rise to any such investigation or Claim (other than routine claims for payment of benefits).

(d) Except as disclosed in Section 4.34 of the Disclosure Letter, neither the Company, nor any of the Subsidiaries have any formal plan or has made any promise or commitment, whether legally binding or not, to create any additional Benefit Plan or to improve or change the benefits provided under any Benefit Plan.

(e) None of the Benefit Plans provide for benefit increases or the acceleration of, or an increase in, securing or funding obligations that are contingent upon or will be triggered by the entering into of this Agreement or the completion of the transactions contemplated in this Agreement.

(f) All employer and employee payments, contributions and premiums required to be remitted, paid to or in respect of each Benefit Plan have been paid or remitted in a timely fashion in accordance with its terms and all Laws.

(g) No event has occurred respecting any Pension Plan that would entitle any Person (without the consent of the Company) to wind up or terminate any Pension Plan, in whole or in part, or would cause any Governmental Authority to revoke the registration of any Pension Plan. Where any Pension Plan has been partially or fully wound up or terminated, all assets, including any surplus, attributable to such partial or full wind-up or termination have been fully distributed in accordance with all Laws or where such distribution of assets is pending, the amount of the surplus attributable to such partial or full wind-up or termination together with the date as of which such amount is determined is disclosed in Section 4.34 of the Disclosure Letter.

(h) Except for a deficiency set out in Section 4.34 of the Disclosure Letter, there is no Pension Plan Unfunded Liability.

(i) There are no entities other than the Company and the Subsidiaries participating in any Benefit Plan. No Benefit Plan provides benefits to Legacy Benefit Plan Members, and the Company has no liability, contingent liability or obligation to provide employee benefits or benefits beyond retirement or other termination of service to Legacy Benefit Plan Members.

(j) All data necessary to administer each Benefit Plan is in the possession of the Company and the Subsidiaries or its agent and is in a form that is sufficient for the proper administration of the Benefit Plan in accordance with its terms and all Laws, and such data is complete and correct.

(k) Except as disclosed in Section 4.34 of the Disclosure Letter, none of the Benefit Plans, other than the Pension Plans, provide benefits beyond retirement or other termination of service to Employees or former employees or to the beneficiaries or dependants of such employees and where there are such Benefit Plans disclosed in Section 4.34 of the Disclosure Letter, each such Benefit Plan may be amended or terminated at any time without incurring any liability thereunder other than in respect of Claims incurred prior to such amendment or termination.

(l) None of the Benefit Plans, or any insurance Contract relating thereto, require or permit a retroactive increase in premiums or payments, or require additional premiums or payments on termination of the Benefit Plan or any insurance Contract relating thereto.

4.35 Personal Information

Except as disclosed in Section 4.35 of the Disclosure Letter:

(a) the Company and each of the Subsidiaries, to the extent required by Law, has a written privacy policy that governs the collection, use and disclosure of Personal Information, and the Company is in compliance with such privacy policy; and

(b) to the extent required by Law, all required consents to the collection, use or disclosure of Personal Information in connection with the conduct of the Company’s and Subsidiaries' businesses (including disclosure to Affiliates of the Company or any of the Subsidiaries) have been obtained.

4.36 Insurance

Each of the Company and the Subsidiaries maintains such policies of insurance, issued by responsible insurers, as are appropriate to its operations, property and assets, in such amounts and against such risks as are customarily carried and insured against by owners of comparable businesses, properties and assets. All such policies of insurance are in full force and effect, the Company or any of the Subsidiaries is not in default, as to the payment of premiums or otherwise, under the terms of any such policy, and the Company and each of the Subsidiaries is otherwise in compliance with the terms and conditions of all such policies. Neither the Company nor any of the Subsidiaries has received any written notice of cancellation of, premium increase with respect to, or alteration of coverage under, any of its insurance policies. There are no claims related to the business of the Company or any of the Subsidiaries pending under any of the insurance policies as to which coverage has been questioned, denied or disputed or in respect of which there is an outstanding reservation of rights. Section 4.36 of the Disclosure Letter sets forth (i) a complete list of all

policies of insurance that the Company and each of the Subsidiaries maintains and the particulars of such policies, including the name of the insurer, the risk insured against, the amount of coverage and the amount of any deductible and a summary of all claims under each such policy for the past five years; (ii) details of any self-insurance arrangements by or affecting the Company or any of the Subsidiaries, including any reserves established thereunder; and (iii) details of any insurance coverage provided to third parties and details of the policies under which such coverage is provided. The Company has made available true and complete copies of all insurance policies listed on Section 4.36 of the Disclosure Letter.

4.37 Material Contracts

Section 4.37 of the Disclosure Letter sets forth a complete list of the Material Contracts which are all in full force and effect unamended and there are no outstanding defaults (or events that would constitute a default with the passage of time or giving of notice or both) under any such Material Contract on the part of the Company or any of the Subsidiaries, or on the part of any other party to such Material Contracts. Each of the Company and the Subsidiaries has the capacity, including the necessary personnel and equipment, to perform all its obligations under the Material Contracts. Except as disclosed in Section 4.37 of the Disclosure Letter, no consent is required nor is any notice required to be given under any Material Contract by any Person in connection with the completion of the transaction contemplated by this Agreement in order to maintain all rights of the Company or any of the Subsidiaries under such Material Contract. The completion of the transactions contemplated by this Agreement will not result in any default under any such Material Contract nor afford any Person the right to terminate any such Material Contract, nor will the completion of such transactions result in any additional or more onerous obligation on the Company or any of the Subsidiaries under any such Material Contract. True and complete copies of all Material Contracts have been made available to the Purchaser.

4.38 Litigation

There are no Claims, investigations or other proceedings, including appeals and applications for review, in progress, or, to the knowledge of the Vendors, pending or threatened against or relating to the Company or any of the Subsidiaries before any Governmental Authority, that, if determined adversely to the Company or any of the Subsidiaries, would:

(a) have a Material Adverse Effect;

(b) enjoin, restrict or prohibit the transfer of all or any part of the Purchased Shares as contemplated by this Agreement; or

(c) delay, restrict or prevent the Vendors or the Company or any of the Subsidiaries from fulfilling any of their obligations set out in this Agreement or arising from this Agreement,

and neither the Vendors nor the Company have any knowledge of any existing ground on which any such action, suit, Claim, litigation or proceeding might be commenced with any reasonable likelihood of success. Except as disclosed in Section 4.38 of the Disclosure Letter, there is no judgment, decree, injunction, rule or Order of any Governmental Authority or arbitrator outstanding against the Company or any of the Subsidiaries. Copies of all of the audit response letters from all counsel to the Company and the Subsidiaries for the last five (5) years have been made available to the Purchaser. Except as set out in Section 4.38 of the Disclosure Letter and matters relating to workers' compensation that have been made available, neither the Company, nor any of the Subsidiaries has undergone during the last three years, or is currently undergoing, any audit, review, inspection, investigation or examination of records by a Governmental Authority relating to the businesses of the Company or the Subsidiaries.

4.39 Tax Matters

Except as specifically disclosed in Section 4.39 of the Disclosure Letter:

(a) During the last 7 years, each of the Company and the Subsidiaries has duly and timely made or prepared all Tax Returns required to be made or prepared by it, has duly and timely filed all Tax Returns required to be filed by it with the appropriate Governmental Authority and has duly, completely and correctly reported all income and all other amounts and information required to be reported thereon.

(b) Each of the Company and the Subsidiaries has duly and timely paid all Taxes, including all instalments on account of Taxes for the current year, that are due and payable by it whether or not assessed by the appropriate Governmental Authority. Provision has been made on the Balance Sheet for amounts at least equal to the amount of all Taxes owing by the Company that were not yet due and payable by the date of the Balance Sheet and that relate to periods ending on or prior to the date of the Balance Sheet.

(c) Neither the Company, nor any of the Subsidiaries has requested, offered to enter into or entered into any agreement or other arrangement, or executed any waiver, providing for any extension of time within which (i) to file any Tax Return covering any Taxes for which the Company is or may be liable; (ii) to file any elections, designations or similar filings relating to Taxes for which the Company or any of the Subsidiaries is or may be liable; (iii) the Company or any of the Subsidiaries is required to pay or remit any Taxes or amounts on account of Taxes; or (iv) any Governmental Authority may assess or collect Taxes for which the Company or any of the Subsidiaries is or may be liable.

(d) Other than those agreements and arrangements described in Section 4.39 of the Disclosure Letter, the Company has not made, prepared or filed any elections, designations or similar filings relating to Taxes or entered into any agreement or other arrangement in respect of Taxes or Tax Returns that has effect for any period ending after the Closing Date.

(e) Except for a research and development tax credit claim for the fiscal year ending on August 31, 2011, which is not yet due, all income, sales (including goods and services, harmonized sales and provincial or territorial sales) and capital tax liabilities of the Company have been assessed by the relevant Governmental Authorities, and notices of assessment have been issued to the Company and the Subsidiaries by the relevant Governmental Authorities for all taxation years or periods ending prior to and including the taxation year or period ended August 31, 2011.

(f) There are no proceedings, investigations, audits or Claims now pending or threatened against the Company or any of the Subsidiaries in respect of any Taxes, and there are no matters under discussion, audit or appeal with any Governmental Authority relating to Taxes.

(g) Each of the Company and the Subsidiaries has duly and timely withheld all Taxes and other amounts required by Law to be withheld by it (including Taxes and other amounts required to be withheld by it in respect of any amount paid or credited or deemed to be paid or credited by it to or for the account or benefit of any Person, including any Employee, officer or director and any non-resident Person), and has duly and timely remitted to the appropriate Governmental Authority such Taxes and other amounts required by Law to be remitted by it.

(h) Each of the Company and the Subsidiaries has duly and timely collected all amounts on account of any sales or transfer taxes, including goods and services, harmonized sales and provincial or territorial sales taxes, required by Law to be collected by it and has duly and timely remitted to the appropriate Governmental Authority any such amounts required by Law to be remitted by it.

(i) Except pursuant to this Agreement, as specifically disclosed in writing to the Purchaser, or as described in Section 4.39 of the Disclosure Letter, for purposes of the *Income Tax Act* (Canada) or any other applicable Tax statute, no Person or group of Persons has ever acquired or had the right to acquire control of the Company or any of the Subsidiaries.

(j) None of sections 78, 80, 80.01, 80.02, 80.03 or 80.04 of the *Income Tax Act* (Canada), or any equivalent provision of the Tax legislation of any province or any other jurisdiction, have applied or will apply to the Company or any of the Subsidiaries at any time in the last six years up to and including the Closing Date.

(k) Neither the Company, nor any of the Subsidiaries has acquired property from a non-arm's length Person, within the meaning of the *Income Tax Act* (Canada), for consideration, the value of which is less than the fair market value of the property acquired in circumstances that could subject it to a liability under section 160 of the *Income Tax Act* (Canada).

(l) Except as set out in Section 4.39(l) of the Disclosure Letter, for all transactions between the Company or any of the Subsidiaries, and any non-resident Person with whom the Company or any of the Subsidiaries was not dealing at arm's length during a taxation year commencing after 2005 and ending on or before the Closing Date, the Company and the Subsidiaries have made or obtained records or documents that meet the requirements of paragraphs 247(4) (a) to (c) of the *Income Tax Act (Canada)*.

(m) The Company is duly registered under subdivision (d) of Division V of Part IX of the *Excise Tax Act* (Canada) with respect to the goods and services tax and harmonized sales tax.

(n) The only reserves under the *Income Tax Act* (Canada) or any equivalent provincial or territorial statute to be claimed by the Company for the taxation year ended immediately prior to the acquisition of control by the Purchaser are disclosed in Section 4.39 of the Disclosure Letter.

(o) The Purchaser has been provided with copies of all Tax Returns filed in the last 7 years relating to the Taxes of the Company or any of the Subsidiaries.

(p) More than fifty percent (50%) of the fair market value of the Shares is not derived, and at no time during the sixty (60) month period preceding the Closing Date was more than fifty percent (50%) of the fair market value of the Shares derived, directly or indirectly from one or any combination of: (i) real or immovable property situated in Canada; (ii) Canadian resource properties (within the meaning of the *Income Tax Act* (Canada); (iii) timber resource properties (within the meaning of *the Income Tax Act* (Canada)); or (iv) options in respect of, or interests in, or for civil law rights in, property described in (i), (ii) or (iii) above, whether or not the property exists. The Purchased Shares have not been deemed to be taxable Canadian property (within the meaning of the *Income Tax Act* (Canada)) under a provision of the *Income Tax Act* (Canada).

(q) Neither the Company, nor any of the Subsidiaries has made an excessive eligible dividend election, as that term is

defined in the *Income Tax Act* (Canada), except as described in Section 4.39 of the Disclosure Letter.

4.40 Books and Records

All Books and Records requested by the Purchaser have been delivered or made available to the Purchaser. Such Books and Records fairly and correctly set out and disclose in all material respects the financial position of the Company and the Subsidiaries, and all material financial transactions relating to its business have been accurately recorded in such Books and Records. Books and Records stored on computer-related or other electronic media are appropriately organized and indexed and no data conversions, translations or technology upgrades are required before such data can be accessed, read, searched and used by the Company's or any of the Subsidiaries' current Information Technology.

4.41 Corporate Records

(a) The letters patent and by-laws of the Company and the Subsidiaries, including any and all amendments, have been delivered or made available to the Purchaser and such letters patent and by-laws as so amended are in full force and effect and no amendments are being made or are contemplated to be made to them.

(b) The corporate records and minute books of the Company and the Subsidiaries have been delivered or made available to the Purchaser. The minute books include complete and accurate minutes of all meetings of the directors or shareholders of the Company and the Subsidiaries held to date or resolutions passed by the directors or shareholders on consent, since the date of its incorporation. The share certificate book, register of shareholders, register of transfers and register of directors for the Company and the Subsidiaries are complete and accurate and have been made available to the Purchaser.

4.42 Trade Allowances

Except as disclosed in Section 4.42 of the Disclosure Letter, no customers of the Company or any of the Subsidiaries are entitled to or customarily receive discounts, allowances, rebates, credits, preferential terms, or similar reductions in price or other trade terms arising from any agreements or understandings (whether written or oral) with or concessions granted to any customer. Except as described in Section 4.42 of the Disclosure Letter, all such discounts, allowances, rebates, credits, preferential terms, or similar reductions in price or other trade terms, including contra transactions, are at the same levels as have been in existence for the three (3) immediately preceding fiscal years and are consistent with industry practice. Section 4.42 of the Disclosure Letter also includes a summary of all marketing and pricing policies, including promotions and trade allowances, that are currently in effect or that have been in effect during any of the last three (3) years.

4.43 Third Party Consents

Section 4.43 of the Disclosure Letter sets forth a complete list of all notifications, approvals and consents required to be obtained from third parties by the Company or any of the Subsidiaries in connection with the execution, delivery and performance of this Agreement or any other documents and agreements to be delivered under this Agreement.

4.44 Powers of Attorney

Section 4.44 of the Disclosure Letter sets out a complete list of every outstanding power of attorney granted by the Company or any of the Subsidiaries and the names of all Persons who have been given the authority to act on behalf of the Company or any of the Subsidiaries. Copies of all outstanding powers of attorney granted by the Company or any of the Subsidiaries have been made available to the Purchaser.

4.45 No Broker

The Vendors have carried on all negotiations relating to this Agreement and the transactions contemplated in this Agreement directly and without intervention on its behalf of any other party in such manner as to give rise to any valid claim for a brokerage commission, finder's fee or other like payment against the Purchaser, the Company or any of the Subsidiaries.

4.46 Third Party Tangible Personal Property

All personal property owned or leased by customers of the Company that is located or stored at the Real Property is in good condition, repair (and where applicable) proper working order, and such assets have been used and maintained properly and in accordance with the terms of any agreement between the Company and such customers, and the Company maintains policies of insurance that will cover any losses associated with such property.

4.47 Full Disclosure

No representation or warranty contained in this Agreement, and no statement contained in the Disclosure Letter or any certificate, list, summary or other disclosure document provided or to be provided to the Purchaser pursuant to this Agreement or in connection with the transactions contemplated hereby contains or will contain any untrue statement of a material fact, or omits or will omit to state any material fact which is necessary in order to make the statements contained herein not misleading.

ARTICLE 5
REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser and Questcor jointly and severally represent and warrant to the Vendors the matters set out below and as of the Closing, as though made at the Closing:

5.1 Status of the Purchaser

The Purchaser is a corporation existing under the laws of the Province of Prince Edward Island.

5.2 Status of Questcor

Questcor is a corporation existing under the laws of the State of California.

5.3 Due Authorization and Enforceability of Obligations

Each of the Purchaser and Questcor have all necessary corporate power, authority and capacity to enter into this Agreement and to carry out their obligations under this Agreement. The execution and delivery of this Agreement and the consummation of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate action of each of the Purchaser and Questcor. This Agreement constitutes, and each other agreement to be executed by the Purchaser and Questcor in connection with the Closing will constitute, a valid and binding obligation of the Purchaser and Questcor enforceable against each of them in accordance with its terms.

5.4 Absence of Conflicts

Neither the Purchaser nor Questcor is a party to, bound or affected by or subject to any:

(d) indenture, mortgage, lease, agreement, obligation or instrument;

(e) charter or by-law provision; or

(f) Laws or Governmental Authorizations,

that would be violated, breached by, or under which default would occur or an Encumbrance would be created as a result of the execution and delivery of, or the performance of obligations under, this Agreement or any other agreement to be entered into under the terms of this Agreement.

5.5 Regulatory Approvals

No approval, Order, consent of or filing with any Governmental Authority, other than as required by applicable stock exchange rules and regulations or as required by matters specific to the Company, is required on the part of the Purchaser or Questcor in connection with the execution, delivery and performance of this Agreement or any other documents and agreements to be delivered under this Agreement or the performance of the Purchaser's or Questcor's obligations under this Agreement or any other documents and agreements to be delivered under this Agreement.

5.6 Investment Canada

The Purchaser is a "WTO investor" within the meaning of the *Investment Canada Act* (Canada).

5.7 Litigation

There are no Claims, investigations or other proceedings, including appeals and applications for review, in progress or, to the knowledge of the Purchaser or Questcor, pending or threatened against or relating to the Purchaser or Questcor, before any Governmental Authority that, if determined adversely to the Purchaser or Questcor, would,

(d) prevent the Purchaser from paying the Purchase Price to the Vendors or prevent Questcor from complying with its guarantee set out in Section 9.9;

(e) enjoin, restrict or prohibit the transfer of all or any part of the Purchased Shares as contemplated by this Agreement; or

(f) delay, restrict or prevent the Purchaser or Questcor from fulfilling any of its obligations set out in this Agreement or arising from this Agreement,

and neither the Purchaser nor Questcor have any knowledge of any existing ground on which any such action, suit, litigation or proceeding might be commenced with any reasonable likelihood of success.

5.8 Financing

The Purchaser has or will have all funds on hand necessary to pay the Purchase Price in accordance with terms of this Agreement.

5.9 No Broker

The Purchaser and Questcor have carried on all negotiations relating to this Agreement and the transactions contemplated in this Agreement directly and without the intervention on its behalf of any other party in such manner as to give rise to any valid claim for a brokerage commission, finder's fee or other like payment.

ARTICLE 6
NON-WAIVER; SURVIVAL

6.1 Non-Waiver

No investigations made by or on behalf of the Purchaser or Questcor at any time have the effect of waiving, diminishing the scope of or otherwise affecting any representation or warranty made by the Vendors or the Company in or pursuant to this Agreement. No waiver of any condition or other provisions, in whole or in part, constitutes a waiver of any other condition or provision (whether or not similar), nor does such waiver constitute a continuing waiver unless otherwise expressly provided.

6.2 Nature and Survival

All representations, warranties and covenants contained in this Agreement on the part of each of the Parties survive:

(a) the Closing; and

(b) the payment of the consideration for the Purchased Shares,

in each case, for the same period of time during which an obligation to indemnify exists pursuant to Article 11.

ARTICLE 7
PURCHASER'S CONDITIONS PRECEDENT

The obligation of the Purchaser to complete the purchase of the Purchased Shares under this Agreement is subject to the satisfaction of, or compliance with, at or before the Closing Time, each of the following conditions (each of which is acknowledged to be inserted for the exclusive benefit of the Purchaser and may be waived in whole or in part).

7.1 Truth and Accuracy of Representations

All of the representations and warranties of the Vendors and the Company made in or pursuant to this Agreement must be true and correct as at the Closing Time and with the same effect as if made at and as of the Closing Time in all material respects (except in the case of any representation or warranty that includes a materiality qualification, which must be true and correct in all respects) and the Purchaser must have received a certificate from a senior officer of the Company at Closing confirming such truth and correctness of the representations and warranties contained in this Agreement.

7.2 Performance of Obligations

The Vendors and the Company must have performed or complied with, in all respects, all their obligations and covenants under this Agreement, and the Purchaser must have received a certificate from a senior officer of the Company confirming such performance or compliance.

7.3 Approvals

The Vendors and the Company must cooperate with the Purchaser and use all reasonable efforts to obtain and diligently assist the Purchaser in obtaining all necessary consents, approvals and authorizations under any applicable Law or required pursuant to any Contract prior to Closing, including those consents, approvals and authorizations set forth in Section 4.43 of the Disclosure Letter. All consents and approvals required under the Contracts set out in Schedule 7.3 or by any Governmental Authority must have been obtained at or before the Closing Date on terms acceptable to the Purchaser.

7.4 Encumbrances

The Purchaser must have received evidence satisfactory to it that all Encumbrances other than Permitted Encumbrances have been discharged and that the assets of the Company and the Subsidiaries are free and clear of all Encumbrances other than Permitted Encumbrances.

7.5 No Proceedings

There shall be no Orders issued preventing, and no pending or threatened Claims, or proceeding, judicial or administrative or investigation against the Company or any of the Subsidiaries by any Governmental Authority, for the purpose of enjoining, delaying, restricting or preventing the consummation of the transactions contemplated by this Agreement or otherwise claiming that this Agreement or the consummation of such transactions is improper or would give rise to proceedings under any Laws.

7.6 Non-Competition

Each of the Vendors and Mr. Regis Duffy, in his personal capacity, must have executed and delivered to the Purchaser a non-competition, non-solicitation and confidentiality agreement dated as of Closing, substantially in the form attached as Schedule 7.6, in order to restrict each of them and any of their Affiliates from competing with the business of the Company, employing Employees of the Company or disclosing confidential information for a period of five years following the Closing.

7.7 Key Employees

Ron Keefe, Dale Zajicek and Gordon Rogers must have executed and delivered to the Purchaser an employment agreement with the Company dated as of Closing, substantially in the form attached as Schedule 7.7. In addition, the employees who will participate as beneficiaries under the 2012 BV Employee Share Ownership Trust shall sign new confidentiality and intellectual property assignment agreements in a form satisfactory to the Purchaser, acting reasonably.

7.8 Conduct of Business After Closing

The Vendors must have executed and delivered to the Purchaser, a governance document dated as of Closing in a form reasonably satisfactory to the Vendors and the Purchaser in order to set forth the governance principles to be used to govern the conduct of the business of the Company.

7.9 Opinion of Counsel for Vendors

Counsel for the Vendors, Stewart McKelvey, must have delivered to the Purchaser an opinion dated the Closing Date, substantially in the form attached as Schedule 7.9, which opinion may rely on certificates of one or more senior officers of the Company as to factual matters and may rely on opinions of local counsel with respect to matters governed by laws other than the laws of the Province of Prince Edward Island.

7.10 Opinion of Counsel for Lauren Holdings Inc.

Counsel for the Lauren Holdings Inc. must have delivered to the Purchaser an opinion dated the Closing Date, substantially in the form attached as Schedule 7.10, which opinion may rely on certificates of one or more senior officers of Lauren Holdings Inc. as to factual matters and may rely on opinions of local counsel with respect to matters governed by laws other than the laws of the Province of Prince Edward Island

7.11 Receipt of Closing Documentation

All documentation relating to the due authorization and completion of the sale and purchase of the Purchased Shares under this Agreement and all actions and proceedings taken on or prior to Closing, in connection with the performance by the Vendors of their obligations under this Agreement, must be satisfactory to the Purchaser, acting reasonably, and the Purchaser must have received copies of all such documentation or other evidence as it may reasonably request in order to establish the consummation of the transactions contemplated in this Agreement and the taking of all necessary proceedings in connection with such transactions in compliance with these conditions, in form (as to certification or otherwise) and substance satisfactory to the Purchaser, acting reasonably.

ARTICLE 8
VENDORS' CONDITIONS PRECEDENT

The obligations of the Vendors to complete the sale of the Purchased Shares under this Agreement are subject to the satisfaction or compliance with, at or before the Closing Time, each of the following conditions (each of which is acknowledged to be inserted for the exclusive joint benefit of the Vendors and may be waived by the Vendors' Representative in whole or in part).

8.1 Truth and Accuracy of Representations of the Purchaser and Questcor at Closing Time

All of the representations and warranties of the Purchaser and Questcor made in or pursuant to this Agreement must be true and correct as at the Closing Time and with the same effect as if made at and as of the Closing Time in all material respects (except in the case of any representation or warranty that includes a materiality qualification, which must be true and correct in all respects), and the Vendors must have received a certificate from a senior officer of the Purchaser at Closing confirming such truth and correctness of the representations and warranties contained in this Agreement.

8.2 Performance of Obligations

The Purchaser must have performed or complied with, in all respects, all its obligations and covenants under this Agreement, and a certificate from a senior officer of the Purchaser must be provided to the Vendors confirming such performance or compliance.

8.3 Key Employees

The Purchaser must have executed and delivered to the Vendors an employment agreement with each of Ron Keefe, Dale Zajicek and Gordon Rogers dated as of Closing, substantially in the form attached as Schedule 7.7.

8.4 Conduct of Business After Closing

The Purchaser must have executed and delivered to the Vendors, a governance document dated as of Closing in a form reasonably satisfactory to the Vendors and the Purchaser in order to set forth the governance principles to be used to govern the conduct of the business of the Company.

8.5 Opinion of Counsel for Purchaser

Counsel for the Purchaser in Prince Edward Island must have delivered to the Vendors an opinion dated the Closing Date, substantially in the form attached as Schedule 8.5.

8.6 Approvals

All consents, approvals and authorizations set out in Schedule 7.3 shall have been obtained prior to Closing.

8.7 No Proceedings

There shall be no Orders issued preventing the consummation of the transactions contemplated by this Agreement.

8.8 Receipt of Closing Documentation

All documentation relating to the due authorization and completion of the sale and purchase of the Purchased Shares under this Agreement and all actions and proceedings taken on or prior to Closing, in connection with the performance by the Purchaser of its obligations under this Agreement, must be satisfactory to the Vendors, acting reasonably, and the Vendors must have received copies of all such documentation, cheques or wire transfers or other evidence as they may reasonably request in order to establish the consummation of the transactions contemplated in this Agreement and the taking of all necessary proceedings in connection with such transactions in compliance with these conditions, in form (certification or otherwise) and substance satisfactory to the Vendors.

ARTICLE 9
OTHER COVENANTS OF THE PARTIES

9.1 Interim Activities

Except as permitted or contemplated by this Agreement, prior to the Closing the Vendors shall cause the Company and the Subsidiaries not to, and neither the Company, nor any of the Subsidiaries shall, without the prior written approval of the Purchaser, not to be unreasonably withheld:

(a) (i) except for immaterial compensation and benefit increases in the ordinary course of business consistent with past practice, increase the compensation or benefits payable or provided by the Company or any of the Subsidiaries to any individual; or (ii) except in the ordinary course of business, enter into or commit itself to any new employment, management, severance or consulting Contract with any Person, other than Contracts that can be terminated without additional payment in less than 30 days;

(b) issue any communication to Employees (including general communications relating to benefits and compensation) without the prior written approval of the Purchaser (which will not be unreasonably delayed or withheld), except for communications that are in the ordinary course of business and do not relate to the transactions contemplated in this Agreement;

(c) create any additional benefit plans which would be considered to be a Benefit Plan once created or to improve or change the benefits provided under any Benefit Plan;

(d) permit or allow any assets or properties of the Company or any of the Subsidiaries to be subject to any material Encumbrance, other than a Permitted Encumbrance;

(e) (i) except for any Improvements under construction or projects previously disclosed to the Purchaser, make any capital expenditure or any commitment to make any capital expenditure, except for such expenditures or commitments made in the ordinary course of business, (ii) acquire any securities of another Person, (iii) acquire any assets of another Person incident to the acquisition of a business, or (iv) organize any subsidiary or acquire any

interest in another Person, whether by merger, consolidation, joint venture, or acquisition of securities or assets or similar transactions, other than purchases of assets in the ordinary course of business consistent with past practices;

(f) except in the ordinary course of business, enter into any Material Contract or any other Contract with a non-cancellable term in excess of twelve months;

(g) sell, lease, license, transfer or otherwise dispose of, or acquire or agree to acquire, any material assets, except in the ordinary course of business;

(h) incur any indebtedness, other than normal fluctuations in the Company's operating credit in the ordinary course of business, unless such indebtedness will be paid off prior to the Closing, or assume, guarantee, endorse or otherwise become responsible for obligations of any other Person, or make any loans or advances to any Person;

(i) change in any material respect any accounting or tax principles, methods or policies or change or modify its credit, collection or payment policies, procedures or practices;

(j) settle any material Claim or waive any material rights or Claims;

(k) issue or commit to issue any shares of capital stock or options of the Company or any of the Subsidiaries, or grant any stock appreciation rights or grant any Person any right to acquire any shares of capital stock or options of the Company or any of the Subsidiaries;

(l) amend its charter or bylaws or comparable organizational documents;

(m) merge or amalgamate with any other Person or permit any other Person to merge into it, consolidate with any other Person, or adopt a plan of arrangement, liquidation or dissolution;

(n) take any action that is intended or may reasonably be expected to result in any of its representations and warranties set forth in this Agreement being or becoming untrue in any material respect at any time prior to the Closing Date, or in any of the conditions set forth in Article 7 and Article 8 not being satisfied in any material respect or in a material violation of any provision of this Agreement, except, in each case, as may be required by Law;

(o) change any annual tax accounting period, adopt or change any method of tax accounting, make or change any election, file any amended Tax Return, enter into any closing agreement, settle any tax Claim or assessment of or relating to the Company or any of the Subsidiaries, surrender any right to claim a refund of Taxes, or consent to any extension or waiver of the limitation period applicable to any tax Claim or assessment upon or relating to the Company, unless required by applicable Law;

(p) engage in any transaction not at arm's length, or make any payment or distribution to any Affiliate (other than payments for services to an officer, director, manager or Employee of the Company or any of the Subsidiaries pursuant to existing arrangements); or

(q) authorize, commit or agree to take any of the foregoing actions.

9.2 Access for Investigation

(a) The Company and the Vendors shall permit the Purchaser and its representatives, between the date of this Agreement and the Closing Time, to have access during normal business hours to (i) the Real Property; (ii) all the Books and Records; and (iii) the properties and assets used by the Employees, the Company and the Subsidiaries. The Company and the Vendors shall furnish to the Purchaser copies of Books and Records as the Purchaser shall from time to time reasonably request to enable confirmation of the matters warranted in Article 4. Without limiting the generality of the foregoing, the accounting representatives of the Purchaser shall be afforded ample opportunity to make a full investigation of all aspects of the financial affairs of the Vendor in connection with the affairs of the Company or any of the Subsidiaries. The Purchaser shall have the right to have the Real Property, the Tangible Personal Property and the Information Technology inspected and tested by the Purchaser's representatives. The Vendors shall cooperate and assist, to the extent reasonably requested by the Purchaser, with the Purchaser's investigation of the property, assets, undertaking and financial condition of the Company or any of the Subsidiaries. The Purchaser's rights of access shall be exercised in a manner that does not unreasonably interfere with the operations of the Company or the Subsidiaries.

(b) Notwithstanding Section 9.2(a), the Company, the Subsidiaries and the Vendors shall not be required to disclose any information, records, files or other data to the Purchaser where prohibited by any Laws. If any consent of any Person or Governmental Authority is required to permit the Vendor to release any information to the Purchaser, the Vendors shall promptly inform the Purchaser thereof and shall make all reasonable efforts to obtain such consent as soon as possible.

(c) The Company and the Vendors shall forthwith, upon request by the Purchaser or Purchaser's counsel, execute and

deliver to the Purchaser all necessary consents to permit the Purchaser to have inspections made and have existing records released to the Purchaser by the municipal building and zoning department, fire department, public works, environmental agencies, the elevator inspections branch of the provincial or territorial department of labour and other appropriate authorities as the Purchaser may consider advisable between the date of this Agreement and Closing. Such consents shall authorize and direct the release of information to the Purchaser.

9.3 Actions to Satisfy Closing Conditions

Each of the Parties will take all such actions as are within its power to control, and use reasonable commercial efforts to cause other actions to be taken which are not within its power to control, so as to ensure compliance with each of the conditions and covenants set forth in Article 7, Article 8 and Article 9, which are for the benefit of any other Party, provided that the Parties shall not be required to dispose of or make any changes to its business, the business of any of its Affiliates or the business of the Company or any of the Subsidiaries, or expense any material amounts or incur any other obligation in order comply with this Section.

9.4 Notice of Untrue Representation or Warranty

The Vendors and the Company shall notify the Purchaser, and the Purchaser shall notify the Vendors' Representative and the Company, promptly upon any representation or warranty made by it contained in this Agreement becoming incorrect prior to Closing, and for the purposes of this Section 9.4, unless otherwise specified, each representation and warranty shall be deemed to be given at and as of all times from the date of this Agreement to the Closing Date. Any such notice shall set out particulars of the untrue or incorrect representation or warranty and details of any actions being taken by the Vendor, the Company or the Purchaser, as the case may be, to rectify the incorrectness. No such notice will relieve either Party of any right or remedy provided for in this Agreement.

9.5 Stub Period Returns

The Purchaser will cause each of the Company and the Subsidiaries to duly and timely make or prepare all Tax Returns required to be made or prepared by it and to duly and timely file all Tax Returns required to be filed by it for any period that ends on or before the Closing Date and for which Tax Returns have not been filed as of such date. The Purchaser may cause the Company or any of its Subsidiaries to make the election referred to in subsection 256(9) of the *Income Tax Act* (Canada), and comparable provisions of applicable provincial or territorial legislation, and to file such election for the Company's and the Subsidiaries' taxation year ending immediately before the Closing Time. The Vendors and the Purchaser will cooperate fully with each other and make available to each other in a timely fashion such data and other information as may reasonably be required for the preparation of any Tax Return of the Company and the Subsidiaries for a period ending on, prior to or including the Closing Date and will preserve such data and other information until the expiration of any applicable limitation period under any applicable law with respect to Taxes.

9.6 Exclusive Dealing

From the date of this Agreement to Closing, the Vendors and the Company shall not directly or indirectly, solicit, initiate or encourage any inquiries or proposals from, discuss or negotiate with, provide any confidential information to, or consider the merits of other inquiries or proposals from, or enter into any Contract with, any Person (other than the Purchaser or Questcor) relating to any transaction involving: (a) the sale of any shares of the Company or any of the Subsidiaries; (b) the sale of the business or any assets of the Company or any of the Subsidiaries other than in the ordinary course; or (c) an amalgamation, merger or consolidation of the Company or any of the Subsidiaries with any body corporate. The Company and/or the Vendors shall promptly notify the Purchaser of the existence of any written proposal or inquiry received after the date of execution of this Agreement by the Company or anyone acting on its behalf, the Person that submitted such written proposal or inquiry and the terms thereof.

9.7 Submission to Jurisdiction

(a) Each Party submits to the exclusive jurisdiction of any Ontario courts sitting in Toronto in any action, application, reference or other proceeding arising out of or relating to this Agreement, or the agreements contemplated within this Agreement and consents to all claims in respect of any such action, application, reference or other proceeding being heard and determined in such Ontario courts.

(b) The Parties will not raise any objection to the venue of any action, application, reference or other proceeding arising out of or relating to this Agreement in the Ontario Courts sitting in Toronto, including the objection that the proceedings have been brought in an inconvenient forum.

(c) Each of the Purchaser and Questcor irrevocably appoints Osler, Hoskin & Harcourt LLP (the "**Purchaser Process Agent**"), with an office as of the date of this Agreement at 340 Albert Street, Suite 1900, Ottawa, Ontario, for the attention of Craig Wright, as its agent to receive on behalf of it and its property, service of any documents by which any action, application, reference or other proceeding arising out of or relating to this Agreement is commenced. Such service may be made by delivering a copy of such documents to the Purchaser or Questcor in care of the Purchaser Process Agent at the Purchaser Process Agent's above address, and each of the Purchaser and Questcor irrevocably authorizes and directs the Purchaser Process Agent to accept such service on its behalf.

(d) Each of the Vendors and the Vendors' Representative irrevocably appoint Stewart McKelvey (the "**Vendor Process Agent**"), with an office as of the date of this Agreement at 65 Grafton Street, Charlottetown, Prince Edward Island, for the attention of Paul Kiley, as its agent to receive on behalf of each of them and their respective property, service of any documents by which any action, application, reference or other proceeding arising out of or relating to this Agreement is commenced. Such service may be made by delivering a copy of such documents to the Vendors or the Vendors' Representative in care of the Vendor Process Agent at the Vendor Process Agent's above address, and the Vendors and the Vendors' Representative irrevocably authorize and direct the Vendor Process Agent to accept such service on its behalf.

(e) A final judgment in any such action, application or proceeding is conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner specified by law.

9.8 Shareholder Agreements

Each of the Vendors and the Company agrees that the Shareholders Agreement dated effective December 31, 2011 between the Company, Dale Zajicek, Gordon Rogers, Ron Keefe, and Lauren Holdings Inc. and the Shareholders Agreement dated effective December 31, 2011 between the Company and the Vendors (together, the "**Shareholders Agreements**") are hereby terminated effective immediately prior to the Closing without the necessity of any further action by any of the Vendors or the Company and the parties agree that upon Closing each of the Shareholders Agreements shall be of no further force or effect.

9.9 Questcor Guarantee

(a) Questcor, hereby unconditionally and irrevocably guarantees to the Vendors payment and performance by the Purchaser of its obligations in respect of the Purchase Price (including without limitation any payment owing pursuant to Section 3.3) (the "**Guaranteed Obligations**"). The liability of Questcor by reason of this Section 9.9 is primary, and the Vendors shall not be required to make any demand on the Purchaser for performance of any of its obligations under this Agreement, nor to exhaust any legal, contractual or equitable remedies against the Purchaser, prior to proceeding against Questcor.

(b) Questcor shall indemnify and save the Vendors harmless from and against any losses which may arise by virtue of any of the Guaranteed Obligations being or becoming for any reason whatsoever in whole or in part:

(i) void, voidable, *ultra vires*, illegal, invalid, ineffective or otherwise unenforceable by the Vendors in accordance with its terms; or

(ii) released or discharged by operation of Law.

(c) The Purchaser and Questcor acknowledge that the benefit of the guarantee contained in this Section is for the exclusive benefit of the Vendors and the Vendors, in their sole and absolute discretion, may claim under this guarantee or decline to claim under this guarantee with respect to any Guaranteed Obligation.

(d) Questcor shall cause any successor to execute any and all documents such that any such successor would be bound hereunder.

(e) The liability of Questcor hereunder shall be absolute and unconditional irrespective of:

(i) any change or amendment to this Agreement or a change in the name or objects of the Purchaser, provided that if this Agreement is amended in any manner, this guarantee shall only apply to this Agreement, as amended;

(ii) any change in the time, manner or place of payment of, amount or amounts owing by the Purchaser hereunder, or in any other term of, or any other amendment or waiver of or any consent to departure from this Agreement; or

(iii) to the extent permitted by applicable law, any other circumstances which might otherwise constitute a defence available to, or a discharge of, Questcor in respect of the Guaranteed Obligations, or of Questcor in respect of this Agreement.

ARTICLE 10
TERMINATION

10.1 Termination

(d) This Agreement may, by notice in writing given by the Vendors or the Purchaser at or prior to the Closing, be terminated:

(i) by mutual agreement of the Vendors and the Purchaser;

(ii) by either the Vendors or the Purchaser if the Closing has not occurred by the end of the date that is 60 days after execution of this Agreement, provided that the Vendors or the Purchaser may not terminate this Agreement under this Section 10.1(ii). if it has failed to perform any one or more of its material obligations or covenants under this Agreement required to be performed at or prior to the Closing and the Closing has not occurred because of such failure;

(iii) by either the Vendors or the Purchaser if there has been a material breach of any provision of this Agreement by the other Party and such breach has not been waived by the non-breaching Party or, provided such breach is reasonably capable of being cured, such breach has not been cured within 15 days following notice of such breach by the non-breaching Party; or

(iv) by the Purchaser if there is an occurrence of any event which has a Material Adverse Effect on the assets, business, operations or prospects of the Company and the Subsidiaries taken as a whole.

ARTICLE 11
INDEMNIFICATION

11.1 Indemnification by the Vendors

(g) The Vendors will jointly and severally indemnify and save harmless the Purchaser, Questcor, and each of their directors and officers (collectively referred to as the "**Purchaser Indemnified Parties**") from and against all Claims, whether or not arising due to third party Claims, that may be made or brought against the Purchaser Indemnified Parties, or that they may suffer or incur, directly or indirectly, as a result of or in connection with or relating to:

(i) any non-fulfilment or breach of any covenant or agreement on the part of the Vendors or the Company contained in this Agreement or in any certificate or other document furnished by or on behalf of the Vendors pursuant to this Agreement;

(ii) any misrepresentation or any incorrectness in or breach of any representation or warranty of the Vendors or the Company contained in this Agreement or in any certificate or other document furnished by or on behalf of the Vendors or the Company pursuant to this Agreement disregarding for the purpose of this Section 11.1(a)(ii) any materiality or Material Adverse Effect qualification contained in any such representation or warranty;

(iii) liability to third Persons respecting products manufactured or sold, or services provided, by the Company or any of the Subsidiaries prior to the Closing Date, provided that in respect of liability for products manufactured or sold prior to the Closing Date, other than Claims relating to the return of products based on product or manufacturing warranties, the Company has maintained product liability insurance that is commercially reasonable in the circumstances;

(iv) any liability of the Company under the asset purchase agreement between the Company and Genzyme Corporation dated November 2, 2007;

(v) any liability for Taxes in respect of any taxation year or other period ended prior to the Closing Date, or any portion of a taxation year or other period up to and including the Closing Date, for which no adequate reserve has been provided and disclosed in the Balance Sheet; or

(vi) the failure by the party identified in Schedule 11.1 ("**Construction Party**") to reimburse the Company in relation to the construction of the facility (the "**Facility**") as set out in the supply agreement dated July 9, 2010 between the Construction Party and the Company and the agreement on payment of construction costs between the Construction Party and the Company dated July 10, 2012 (together, the "**Construction Agreements**"), subject to the Purchaser first making reasonable efforts to enforce the Company's rights to collect such reimbursement from the Construction Party. The Vendors acknowledge and agree that the Purchase Price assumes that the Construction Party will reimburse the Company in full for the construction of the Facility.

(h) The Vendors' obligations under Section 11.1(a) are subject to the following limitations:

(iii) subject to Sections 11.1(b)(ii) and 11.1(b)(iii), the obligations of the Vendors under Sections 11.1(a) (ii) terminate on the second anniversary of the Closing Date except with respect to *bona fide* Claims by a Purchaser Indemnified Party set forth in written notices given by a Purchaser Indemnified Party to the Vendors' Representative prior to such date;

(iv) except with respect to *bona fide* Claims by a Purchaser Indemnified Party set forth in written notices given by a Purchaser Indemnified Party to the Vendors' Representative prior to the date described below, the

obligations of the Vendors under Section 11.1(a)(ii) in respect of any Claim relating to or affected by Tax matters, including any Claim arising out of Section 4.39, for that particular period, or under Section 11.1(a)(v) terminate on the date that is 90 days after the relevant Governmental Authorities are no longer entitled to assess or reassess liability for Taxes against the Company or any of the Subsidiaries for that particular period, having regard, without limitation, to any waivers given by the Company or any of the Subsidiaries in respect of any taxation year;

(v) the obligations of the Vendors under Section 11.1(a) with respect to:

(A) any Claims under Section 11.1(a)(i) or (a)(iv);

(B) any Claims under Section 11.1(a)(iii) that relate to liability for products manufactured or sold prior to the Closing Date, other than Claims relating to the return of products based on product or manufacturing warranties;

(C) any Claims based on any incorrectness in or breach of the representations and warranties set out in Sections 4.1, 4.3, 4.4, 4.5, 4.6, 4.7, 4.18, or 4.30;

(D) any Claims based on the absence of, or deficiency in, the title of the Vendors to the Purchased Shares or the title of the Company or any of the Subsidiaries to its assets;

(E) any Claims based on intentional misrepresentation or fraud by the Vendors or any Person acting for or on behalf of the Vendors,

terminate on the date that is the last day of the 15 year ultimate limitation period;

(vi) the obligations of the Vendors under both Section 11.1(a)(iii) relating to the return of products based on product or manufacturing warranties or services provided prior to the Closing Date and Section 11.1(a)(vi) will terminate on December 31, 2015 except with respect to *bona fide* Claims by a Purchaser Indemnified Party set forth in written notices given by a Purchaser Indemnified Party to the Vendors' Representative prior to such date;

(vii) for Claims made under Section 11.1(a)(ii),(iii), (iv), (v) or (vi) or Claims made by the Purchaser or Questcor based on or with respect to the inaccuracy or breach of any representation or warranty made by the Vendors or the Company contained in this Agreement or contained in any document or certificate given to carry out the transactions contemplated thereby the Vendors shall not be required to pay any amount until the aggregate of all Claims exceeds $100,000 and upon the aggregate of all Claims exceeding $100,000 the Vendors shall be required to pay the amount owing in respect of all of such Claims including the $100,000, except that the foregoing limitation shall not apply to wilful breaches or fraud.

(i) Any Claim made under Section 11.1 is to first be satisfied by setting off the amount of such Claim against any unpaid Earn-Out Amounts. To the extent that the amount of the Claim exceeds the amount of any unpaid Earn-Out Amounts, the Vendors will pay such amount to the Purchaser in cash.

11.2 Indemnification by the Purchaser and Questcor

(c) The Purchaser and Questcor agree to indemnify and save harmless the Vendors from and against all Claims, whether or not arising due to third party Claims, that may be made or brought against any of the Vendors, or that they may suffer or incur directly or indirectly, as a result of or in connection with or relating to:

(i) any non-fulfillment or breach of any covenant or agreement on the part of the Purchaser or Questcor contained in this Agreement or in any certificate or other document furnished by or on behalf of the Purchaser or Questcor pursuant to this Agreement; or

(ii) any misrepresentation or any incorrectness in or breach of any representation or warranty of the Purchaser or Questcor contained in this Agreement or in any certificate or other document furnished by or on behalf of the Purchaser or Questcor pursuant to this Agreement.

(d) The Purchaser’s obligations under Section 11.2(a) are subject to the following limitations:

(i) the obligations of the Purchaser and Questcor under Section 11.2(a)(ii) terminate on the second anniversary of the Closing Date except with respect to *bona fide* Claims by Vendors set forth in written notices given by the Vendors to the Purchaser prior to such date;

(ii) for Claims made under Section 11.2(a)(ii) or Claims made by the Vendors based on or with respect to the inaccuracy or breach of any representation or warranty made by Questcor or the Purchaser contained in this Agreement or contained in any document or certificate given to carry out the transactions contemplated

thereby, the Purchaser and Questcor shall not be required to pay any amount until the aggregate of all Claims exceeds $100,000 and upon the aggregate of all Claims exceeding $100,000 the Purchaser and Questcor shall be required to pay the amount owing in respect of all of such Claims including the $100,000.

(e) Any obligation of the Purchaser to indemnify the Vendors as set forth in this Article 11 is limited to the amount of $25,000,000 plus 50% of the Earn-Out Amounts, excluding any such Claims based on fraud or wilful misconduct of the Purchaser.

11.3 Indemnification Procedures for Third Party Claims

(a) In the case of Claims made by a third party with respect to which indemnification is sought, the party entitled to indemnification under this Agreement (the "**Indemnified Party**") will give prompt notice, and in any event within 10 days, to the other party (the "**Indemnifying Party**"), which in the case of notice to the Vendors shall be to the Vendors' Representative, of any such Claims made upon it. If the Indemnified Party fails to give such notice, such failure does not preclude the Indemnified Party from obtaining such indemnification, but its right to indemnification may be reduced to the extent that such delay prejudiced the defence of the Claim or increased the amount of liability or cost of defense.

(b) The Indemnifying Party may, by notice to the Indemnified Party given not later than 30 days after receipt of the notice described in Section 11.3(a), assume the control of the defence, compromise or settlement of the Claim, but only if such assumption is, by its terms, without cost to the Indemnified Party and if the Indemnifying Party acknowledges in writing the obligation of the Indemnifying Party to indemnify the Indemnified Party in accordance with the terms contained in this Section in respect of that Claim. Without limiting the generality of the foregoing, the Vendors' Representative shall not have the right to assume the control of any defence, compromise, or settlement of any Claim if:

(iii) the Purchaser determines in good faith that the Claim could have a Material Adverse Effect; or

(iv) the Claim involves Acthar or any proprietary products of Questcor or its Affiliates in any respect.

(c) Upon the assumption of control of any Claim by the Indemnifying Party as set out in Section 11.3(b), the Indemnifying Party will diligently proceed with the defence, compromise or settlement of the Claim at its sole expense, including if necessary, employment of counsel and experts reasonably satisfactory to the Indemnified Party and, in connection therewith, the Indemnified Party will cooperate fully, but at the expense of the Indemnifying Party with respect to any out-of-pocket expenses incurred, to make available to the Indemnifying Party all pertinent information and witnesses under the Indemnified Party's control, make such assignments and take such other steps as in the opinion of counsel for the Indemnifying Party are reasonably necessary to enable the Indemnifying Party to conduct such defence. The Indemnified Party will also have the right to participate in the negotiation, settlement or defence of any Claim at its own expense. The Indemnifying Party will not settle any Claim without the prior written consent of the Indemnified Party, such consent not to be unreasonably withheld.

(d) The final determination of any Claim pursuant to this Section, including all related costs and expenses, is binding and conclusive upon all of the Parties as to the validity or invalidity, as the case may be, of such Claim against the Indemnifying Party.

(e) If the Indemnifying Party does not assume control of a Claim, the Indemnified Party may make such settlement of the Claim as it determines, acting reasonably and in good faith, and such settlement or any other final determination of the Claim is binding upon the Indemnifying Party.

11.4 Remedies

The rights of indemnity in Section 11.1 and 11.2 are not prejudiced by the exercise of a termination right contained in Article 10. The Purchaser, Questcor, the Vendors and the Company acknowledge that the failure to comply with a covenant or obligation contained in this Agreement may give rise to irreparable injury to the other Parties inadequately compensable in damages. Accordingly, in addition to seeking indemnification under Section 11.1 and any other remedies otherwise available at Law, the Parties may also seek to enforce the performance of this Agreement by injunction or specific performance upon application to a court of competent jurisdiction without proof of actual damage (and without requirement of posting a bond or other security). This Article 11 remains in full force and effect in all circumstances and is not terminated by any breach (fundamental, negligent or otherwise) by any Party of its representations, warranties or covenants under this Agreement or under any Closing document or by any termination or rescission of this Agreement by any Party.

11.5 Limitation on Liability

(f) The amount of any damages which may be claimed by the Purchaser or Questcor or any Purchaser Indemnified Party pursuant to a Claim made under this Agreement or any agreement, certificate or other document given to carry

out the transactions contemplated hereby shall be calculated to be the cost or loss to the Purchaser or Questcor or any Purchaser Indemnified Party after giving effect to:

(i) any insurance proceeds actually received by the Company from the Company's insurance policies (and for greater certainty, not taking into account any insurance policies of the Purchaser or Questcor) in relation to the matter which is the subject of the Claim;

(ii) the net present value of any related, determinable tax benefits realized, or which will (with reasonable certainty) be realized within a five year period following the date of incurring such cost or loss, by the Company or the Purchaser or Questcor or any Purchaser Indemnified Party in relation to the matter which is the subject of the Claim;

(iii) the amount of any reduction in the Earn-Out Amounts that would otherwise have been payable to the Vendors but for the Purchaser's or Questcor's or any Purchaser Indemnified Party's Claim hereunder arising from a cost or loss by the Company or any of its Subsidiaries; and

(iv) with respect to any Claim under Section 11.1(a)(vi), the greater of (i) the net present value of net cash flow expected with reasonable certainty to be derived from the Facility for alternative uses that would not otherwise be available but for the breach of the Construction Agreements and (ii) the salvage value of the Facility.

(g) Notwithstanding any other provisions of this Agreement or of any agreement, certificate or other document made in order to carry out the transactions contemplated hereby, the aggregate collective liability of the Vendors to the Purchaser or Questcor or any Purchaser Indemnified Party pursuant to this Agreement or of any agreement, certificate or other document provided by or on behalf of the Vendors pursuant to this Agreement, including the obligations of the Vendors to indemnify the Purchaser or Questcor or any Purchaser Indemnified Party as set forth in this Article 11, is limited to the amount of $25,000,000 plus 50% of the Earn-Out Amounts except as follows:

(iv) any such Claims based on fraud or willful misconduct of the Vendors;

(v) the aggregate liability of each Vendor is limited to the proportionate amount of the Purchase Price received by such Vendor, but such limit does not otherwise detract from the joint and several obligations of the Vendors under Section 11.1.

11.6 Trustee and Agent

The Vendors and the Company acknowledge that the Purchaser is acting as trustee and agent for the remaining Purchaser Indemnified Parties, on whose behalf and for whose benefit the indemnity in Section 11.1, is provided and that such remaining Indemnified Parties have the full right and entitlement to take the benefit of and enforce such indemnity notwithstanding that they may not individually be parties to this Agreement. The Vendors agree that the Purchaser may enforce the indemnity for and on behalf of such remaining Purchaser Indemnified Parties and, in such event, the Vendors will not in any proceeding to enforce the indemnity by or on behalf of such remaining Purchaser Indemnified Parties assert any defence thereto based on the absence of authority or consideration or privity of contract and irrevocably waives the benefit of any such defence.

11.7 Release

Effective as of the Closing, in consideration of the mutual covenants and agreements contained in this Agreement, including the consideration to be received by the Vendors:

(f) Each Vendor hereby irrevocably releases and forever discharges the Company and the Subsidiaries and their respective divisions, predecessors, directors, officers, members, managers, partners (general or limited), agents, and employees and the successors, heirs, assigns, executors and administrators to the foregoing (the "**Released Parties**") of and from any and all manner or causes of actions, Claims, suits, rights, debs, sums of money, covenants, Contracts, damages and judgments, whatsoever, in Law or equity, which such Vendor ever had, now has, or which he hereafter can, shall or may have, against the Released Parties, whether known or unknown, suspected or unsuspected, matured or unmatured, fixed or contingent, for, upon reason of any matter relating to the Company or any of the Subsidiaries, and arising at any time on or prior to the Closing Date, whether in such Vendor's capacity as an equity holder, director, officer, holder of indebtedness or otherwise, and the Released Parties shall not have liability with respect thereto; provided, however, that such release shall not cover Claims or liabilities for amounts owed pursuant to, or other rights set forth in, or other Claims arising in connection with this Agreement or any agreement ancillary to this Agreement, nor shall such release cover: (i) Claims or liabilities for amounts owed to any Vendor at the Closing and payable to such Vendor after the Closing in respect of accrued salary and benefits payable by the Company in the ordinary course of the Company's business; or (ii) subject to Section 11.7(c), any right to indemnification under the by-laws of the Company.

(g) Each Vendor acknowledges and agrees that the release set forth in this Section 11.7 applies to all Claims or liabilities

of any nature whatsoever, whether at Law or in equity, whether known or unknown, fixed or contingent, suspected or unsuspected, foreseen or unforeseen that it may have against the Company with respect to the matters being released hereunder.

(h) Questcor, the Purchaser and the Company agree that the indemnification provisions in favour of the Company's directors and officers currently set out in the by-laws of the Company shall not be terminated or modified in such a manner as to adversely affect any director or officer to whom this section applies for a period of six years following the Closing. However, each of the Vendors hereby waives any rights to indemnification under the Company by-laws in respect of any Claim that Questcor or the Purchaser have against such Vendor under this Agreement, in respect of which a Vendor has a right to indemnification under the Company's by-laws, but without prejudice to the Vendors' right to indemnification under the Company by-laws on any other matter in the future.

ARTICLE 12
GENERAL

12.1 Public Notices, Press Releases and Announcements

None of the Parties shall issue any press release or make any public announcement or other disclosure relating to the existence or subject matter of this Agreement without the prior written consent of the other Parties. Notwithstanding the foregoing, Questcor shall be permitted to issue any press release or make any public announcement or other disclosure relating to the existence or subject matter of this Agreement without the prior written consent of the Vendors and the Company, including that Questcor may make any public announcement or disclosure concerning its publicly-traded securities it believes in good faith is required by applicable Law, any listing or trading agreement, or the rules and regulations of NASDAQ, including the filing by Questcor of a Current Report on Form 8-K (the "**Questcor 8-K**") to report execution of this Agreement. In connection with the preparation of the Questcor 8-K, the Company and the Vendors shall, upon request by Questcor, furnish to Questcor all information as may be reasonably necessary or advisable in connection with the transactions contemplated by this Agreement. The Vendors and the Company warrant and represent to Questcor that all such information shall be true and correct in all material respects and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading. On or after the date of the Agreement, the Vendors, the Company, the Purchaser and Questcor shall jointly issue a public announcement and/or press release and/or other disclosure, as shall be mutually agreed, of the transactions contemplated by this Agreement. Each Party will not unreasonably withhold approval from the other Parties with respect to any press release or public announcement. If any Party determines with the advice of counsel that it is required to make this Agreement and the terms of the transaction public or otherwise issue a press release or make public disclosure with respect thereto, it shall, at a reasonable time before making any public disclosure, consult with the other Parties regarding such disclosure, seek such confidential treatment for such terms or portions of this Agreement or the transaction as may be reasonably requested by the other Parties and disclose only such information as is legally compelled to be disclosed. This provision will not apply to communications by any party to its counsel, accountants and other professional advisors.

12.2 Expenses

Except as otherwise provided in this Agreement, including Section 3.1(b):

(f) the Purchaser and Questcor will pay all costs and expenses (including the fees and disbursements of legal counsel and other advisers) they incur in connection with the negotiation, preparation and execution of this Agreement and the transactions contemplated by this Agreement; and

(g) the Vendors will pay all costs and expenses (including the fees and disbursements of legal counsel and other advisers) incurred by the Vendors or the Company in connection with the negotiation, preparation and execution of this Agreement and the transactions contemplated by this Agreement.

12.3 Notices

Any notice, consent or approval required or permitted to be given in connection with this Agreement (in this Section referred to as a "**Notice**") must be in writing and is sufficiently given if delivered (whether in person, by courier service or other personal method of delivery) or transmitted (whether by fax or e-mail) to the addresses or co-ordinates set out in Schedule 12.3.

Any Notice delivered or transmitted to a Party as provided above is deemed to have been given and received on the day it is delivered or transmitted, so long as it is delivered or transmitted on a Business Day prior to 5:00 p.m. local time in the place of delivery or receipt. If the Notice is delivered or transmitted after 5:00 p.m. local time or if such day is not a Business Day then the Notice is deemed to have been given and received on the next Business Day.

Any Party may, from time to time, change its address by giving Notice to the other Parties in accordance with the provisions of this Section.

12.4 Assignment

No Party may assign this Agreement or any rights or obligations under this Agreement without the prior written consent of the other Parties, except that the Purchaser may assign all or a portion of its rights hereunder to an Affiliate of the Purchaser, but no such assignment relieves the Purchaser of its obligations under this Agreement.

12.5 Enurement

This Agreement enures to the benefit of and is binding upon the Parties and their respective heirs, attorneys, guardians, estate trustees, executors, trustees and permitted assigns.

12.6 Amendment

No amendment, supplement, modification or waiver or termination of this Agreement and, unless otherwise specified, no consent or approval by any Party, is binding unless executed in writing by the Party to be bound thereby.

12.7 Further Assurances

The Parties will, with reasonable diligence, do all such things and provide all such reasonable assurances as may be required to consummate the transactions contemplated by this Agreement, and each Party will provide such further documents or instruments required by any other Party as may be reasonably necessary or desirable to effect the purpose of this Agreement and carry out its provisions, whether before or after the Closing.

12.8 Execution and Delivery

This Agreement may be executed by the Parties in counterparts and may be delivered by fax or portable document format (PDF) and all such counterparts together constitute one agreement.

[The remainder of this page is intentionally left blank.]

IN WITNESS OF WHICH the Parties have executed this Agreement.

LAUREN HOLDINGS INC.

By: _____

Name:

Title:

SIGNED, SEALED & DELIVERED
In the presence of:

_____
Witness

_____
Earl Duffy

SIGNED, SEALED & DELIVERED
In the presence of:

_____
Witness

_____
Paul Duffy

SIGNED, SEALED & DELIVERED
In the presence of:

_____
Witness

_____
Maureen Duffy

SIGNED, SEALED & DELIVERED
In the presence of:

Witness

Ron Keefe

SIGNED, SEALED & DELIVERED
In the presence of:

Witness

Dale Zajicek

SIGNED, SEALED & DELIVERED
In the presence of:

Witness

Gordon Rogers

BIOVECTRA INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

Ron Keefe and Gordon Rogers, as trustees on behalf of the **2012 BV EMPLOYEE SHARE OWNERSHIP TRUST**

By: _____
Name: Ron Keefe
Title: Trustee

By: _____
Name: Gordon Rogers
Title: Trustee

101610 P.E.I. INC.

By: _____
Name:
Title:

QUESTCOR PHARMACEUTICALS, INC.

By: _____
Name:
Title:

SIGNED, SEALED & DELIVERED
In the presence of:

Witness

Ron Keefe, as Vendors' Representative

Questcor Pharmaceuticals, Inc.
List of Subsidiaries

1. BioVectra, Inc., a corporation governed by the laws of Prince Edward Island, Canada.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-134879, 333-114166, 333-102988, 333-85160, 333-61866, 333-25661, 333-32159, 333-23085, 333-17501, 333-03507, and 333-107755) and the Registration Statements on Form S-8 (Nos. 333-116624, 333-30558, 333-46990, 333-81243, 333-105694, 333-105693, 333-134878, and 333-151395), pertaining to the 1992 Stock Option Plan, the 1993 Non-Employee Directors' Equity Incentive Plan, the 2000 Employee Stock Purchase Plan, the 2003 Employee Stock Purchase Plan, the 2004 Non-Employee Directors' Equity Incentive Plan and the 2006 Equity Incentive Award Plan of Questcor Pharmaceuticals, Inc. of our report dated February 22, 2011, with respect to the consolidated financial statements and schedule of Questcor Pharmaceuticals, Inc. for the year ended December 31, 2010, included in this Annual Report on Form 10-K for the year ended December 31, 2012.

/s/ OUM & Co. LLP
San Francisco, California
February 20, 2011

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-134879, 333-114166, 333-102988, 333-85160, 333-61866, 333-25661, 333-32159, 333-23085, 333-17501, 333-03507, and 333-107755) and the Registration Statements on Form S-8 (Nos. 333-116624, 333-30558, 333-46990, 333-81243, 333-105694, 333-105693, 333-134878, 333-151395 and 333-175972), pertaining to the 1992 Stock Option Plan, the 1993 Non-Employee Directors' Equity Incentive Plan, the 2000 Employee Stock Purchase Plan, the 2003 Employee Stock Purchase Plan, the 2004 Non-Employee Directors' Equity Incentive Plan and the 2006 Equity Incentive Award Plan of Questcor Pharmaceuticals, Inc. of our reports dated February 27, 2013, related to the consolidated financial statements and schedule of Questcor Pharmaceuticals, Inc. and the effectiveness of internal control over financial reporting of Questcor Pharmaceuticals, Inc. included in this Annual Report on this Form 10-K for the year ended December 31, 2012.

/s/ BDO USA, LLP
Costa Mesa, California
February 27, 2013

EXHIBIT 31.1

CERTIFICATION

I, Don M. Bailey, certify that:

1. I have reviewed this Annual Report on Form 10-K 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(s) 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: February 27, 2013

/s/ DON M. BAILEY

Don M. Bailey,
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Michael H. Mulroy, certify that:

1. I have reviewed this Annual Report on Form 10-K 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(s) 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: February 27, 2013

/s/ MICHAEL H. MULROY

Michael H. Mulroy,
Senior Vice President, Chief Financial Officer, General Counsel and Corporate Secretary (Principal Financial and Accounting Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Questcor Pharmaceuticals, Inc. (the "Company") for the period ended December 31, 2012 (the "Report"), I, Don M. Bailey, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 27, 2013

/s/ DON M. BAILEY

Don M. Bailey,
President and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Questcor Pharmaceuticals, Inc. (the "Company") for the period ended December 31, 2012 (the "Report"), I Michael H. Mulroy, Senior Vice President, Chief Financial Officer, General Counsel and Corporate Secretary of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 27, 2013

/s/ MICHAEL H. MULROY

Michael H. Mulroy,
Senior Vice President, Chief Financial Officer, General Counsel and Corporate Secretary (Principal Financial and Accounting Officer)