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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005

OR

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

FOR THE TRANSITION PERIOD FROM_____TO_____

COMMISSION FILE NUMBER: 001-14758

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

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

3260 Whipple Road
Union City, CA 94587-1217
(Address of Principal Executive Offices)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (510) 400-0700

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

Indicate by check mark whether Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes o No ☑

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

At November 7, 2005 there were 52,880,502 shares of the Registrant's common stock, no par value per share, outstanding.

QUESTCOR PHARMACEUTICALS, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QUESTCOR PHARMACEUTICALS, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	September 30, 2005 (Unaudited)	December 31, 2004 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,341	$ 8,729
Accounts receivable, net of allowances for doubtful accounts of $167 and $40 at September 30, 2005 and December 31, 2004, respectively	1,983	2,349
Inventories, net	1,536	1,769
Prepaid expenses and other current assets	1,341	839
Assets held for sale, net	14,203	—
Total current assets	23,404	13,686
Property and equipment, net	486	614
Purchased technology, net	—	12,758
Goodwill	299	299
Deposits and other assets	731	816
Total assets	$ 24,920	$ 28,173
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 837	$ 1,103
Accrued compensation	649	974
Sales-related reserves	2,570	1,683
Other accrued liabilities	495	598
Short-term debt and current portion of long-term debt and capital lease obligation	692	349
Convertible debentures (face amount of $4,000), net of deemed discount of $103 at December 31, 2004	—	3,897
Total current liabilities	5,243	8,604
Long-term debt and long-term portion of capital lease obligation	1,508	2,021
Other non-current liabilities	914	886
Preferred stock, no par value, 7,500,000 shares authorized; 2,155,715 Series A shares issued and outstanding at September 30, 2005 and December 31, 2004 (aggregate liquidation preference of $10,000 at September 30, 2005 and December 31, 2004)	5,081	5,081
Shareholders' equity:		
Preferred stock, no par value, 8,375 and 8,400 Series B shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively, net of issuance costs (aggregate liquidation preference of $8,375 and $8,400 at September 30, 2005 and December 31, 2004, respectively)	7,553	7,578
Common stock, no par value, 105,000,000 shares authorized; 52,875,815 and 51,216,488 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively	89,360	88,436
Deferred compensation	(6)	(10)
Accumulated deficit	(84,733)	(84,423)
Total shareholders' equity	12,174	11,581
Total liabilities and shareholders' equity	$ 24,920	$ 28,173

See accompanying notes.

QUESTCOR PHARMACEUTICALS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Revenues:				
Net product sales	$ 3,558	$ 3,869	$ 12,346	$ 13,107
Operating costs and expenses:				
Cost of product sales (exclusive of amortization of purchased technology)	522	843	2,297	2,660
Selling, general and administrative	2,298	3,415	7,140	8,958
Research and development	536	522	1,597	1,521
Depreciation and amortization	319	306	953	905
Total operating costs and expenses	3,675	5,086	11,987	14,044
Income (loss) from operations	(117)	(1,217)	359	(937)
Non-cash amortization of deemed discount on convertible debentures	—	(130)	(108)	(392)
Interest income	29	24	87	48
Interest expense	(38)	(118)	(247)	(282)
Other income, net	5	5	6	8
Rental income, net	67	70	181	212
Net income (loss)	(54)	(1,366)	278	(1,343)
Non-cash deemed dividend related to beneficial conversion feature of Series B Preferred Stock	—	—	84	—
Dividends on Series B Preferred Stock	168	168	504	508
Net loss applicable to common shareholders	$ (222)	$ (1,534)	$ (310)	$ (1,851)
Basic and diluted net loss per share applicable to common shareholders	$ 0.00	$ (0.03)	$ (0.01)	$ (0.04)
Shares used in computing basic and diluted net loss per share applicable to common shareholders	52,813	51,111	52,236	50,736

See accompanying notes.

QUESTCOR PHARMACEUTICALS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Nine Months Ended September 30,	
	2005	2004
OPERATING ACTIVITIES		
Net income (loss)	$ 278	$ (1,343)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation expense	15	22
Amortization of deemed discount on convertible debentures	108	392
Amortization of deferred compensation	4	5
Depreciation and amortization	953	905
Deferred rent expense	28	31
Changes in operating assets and liabilities:		
Accounts receivable	366	394
Inventories	(16)	(501)
Prepaid expenses and other current assets	(335)	259
Accounts payable	(266)	277
Accrued compensation	(325)	633
Sales-related reserves	887	508
Other accrued liabilities	(103)	(57)
Net cash flows provided by operating activities	1,594	1,525
INVESTING ACTIVITIES		
Purchase of property and equipment	(22)	(205)
Purchase of short-term investments	—	(999)
Acquisition of purchased technology	(2,000)	—
Proceeds from sale of property and equipment	1	1
(Increase) decrease in other assets	80	(10)
Net cash flows used in investing activities	(1,941)	(1,213)
FINANCING ACTIVITIES		
Issuance of common stock, net of issuance costs	129	2,452
Long-term borrowings	—	2,147
Short-term borrowings	191	569
Repayment of short-term and long-term debt	(361)	(452)
Redemption of convertible debentures	(4,000)	—
Payment of Series B preferred stock dividends	—	(504)
Net cash flows provided by (used in) financing activities	(4,041)	4,212
Increase (decrease) in cash and cash equivalents	(4,388)	4,524
Cash and cash equivalents at beginning of period	8,729	3,220
Cash and cash equivalents at end of period	$ 4,341	$ 7,744
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 247	$ 283
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Deemed dividend related to beneficial conversion feature of Series B preferred stock	$ 84	$ —
Common stock issued in lieu of quarterly cash dividends on Series B preferred stock	$ 672	$ —
Common stock issued upon conversion of Series B preferred stock and accrued dividends for Series B preferred stock	$ 24	$ 704
Equipment acquired under capital lease	$ —	$ 44

See accompanying notes.

QUESTCOR PHARMACEUTICALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION

Questcor Pharmaceuticals, Inc. (the "Company") is a specialty pharmaceutical company that focuses on developing and commercializing novel therapeutics for the treatment of neurological disorders. The Company focuses on the treatment of diseases and disorders of the central nervous system ("CNS"), which are served by a limited group of physicians such as neurologists. The Company's strategy is to acquire pharmaceutical products that it believes have sales growth potential, are promotionally responsive to a focused and targeted sales and marketing effort, complement the Company's therapeutic focus on neurology and can be acquired at a reasonable valuation relative to the Company's cost of capital. In addition, through corporate collaborations, the Company intends to develop new medications focused on its target markets. During the three and nine month periods ended September 30, 2005, the Company owned four products that are distributed in the United States: H.P. Acthar® Gel ("Acthar"), an injectable drug that is approved for the treatment of certain CNS disorders with an inflammatory component, including the treatment of flares associated with multiple sclerosis ("MS") and is also commonly used in treating patients with infantile spasm; Nascobal®, a prescription nasal gel used for the treatment of various Vitamin B-12 deficiencies; Ethamolin®, an injectable drug used to treat enlarged weakened blood vessels at the entrance to the stomach that have recently bled, known as esophageal varices; and Glofil®-125, an injectable agent that assesses how well the kidney is working by measuring glomerular filtration rate, or kidney function. The Company's agreement to promote and sell VSL#3®, a patented probiotic marketed as a dietary supplement to promote normal gastrointestinal function, expired in January 2005.

On October 17, 2005, the Company completed the sale of its non-core products Nascobal, Ethamolin and Glofil-125 to QOL Medical LLC ("QOL") for aggregate proceeds of $28.3 million. Further details on this transaction are provided in Note 15 – Sale of Nascobal, Ethamolin, and Glofil-125 and in the accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States and applicable Securities and Exchange Commission regulations for interim financial information. These financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The unaudited financial statements should be read in conjunction with the audited financial statements and related footnotes included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2004. The accompanying balance sheet at December 31, 2004 has been derived from the audited financial statements at that date. In the opinion of the Company's management, all adjustments (consisting of normal recurring adjustments) considered necessary for the fair presentation of interim financial information have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

2. STOCK-BASED COMPENSATION

The Company generally grants stock options to its employees for a fixed number of shares with an exercise price equal to the fair market value of the shares on the date of grant. As allowed under Statement of Financial Accounting Standards No. 123, "*Accounting for Stock-Based Compensation*" ("SFAS No. 123"), the Company has elected to follow Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees"* ("APBO No. 25") and related interpretations in accounting for stock awards to employees. Accordingly, no compensation expense is recognized in the Company's financial statements in connection with stock options granted to employees with exercise prices not less than fair market value. Deferred compensation for options granted to employees is determined as the difference between the fair market value of the Company's common stock on the date options were granted and the exercise price. For purposes of disclosures pursuant to SFAS No. 123, as amended by Statement of Financial Accounting Standards No. 148, "*Accounting for Stock-Based Compensation — Transition and Disclosure*," the estimated fair value of options is amortized to expense over the options' vesting periods.

The following table illustrates the effect on net loss per share applicable to common shareholders if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation (in thousands, except per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Net loss applicable to common shareholders as reported	$ (222)	$ (1,534)	$ (310)	$ (1,851)
Add: Stock-based employee compensation expense included in reported net loss	1	1	4	8
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards	(113)	(168)	(341)	(510)
Add: Adjustment to stock-based employee compensation due to forfeitures of unvested options, primarily related to CEO resignation	—	359	—	359
Net loss applicable to common shareholders, pro forma	$ (334)	$ (1,342)	$ (647)	$ (1,994)
Basic and diluted net loss per share applicable to common shareholders:				
As reported	$ 0.00	$ (0.03)	$ (0.01)	$ (0.04)
Pro forma	$ (0.01)	$ (0.03)	$ (0.01)	$ (0.04)

Compensation expense for options granted to non-employees has been determined in accordance with SFAS No. 123 and EITF 96-18, "*Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in conjunction with Selling Goods or Services*," as the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. Compensation expense for options granted to non-employees is periodically re-measured as the underlying options vest.

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, "*Share-Based Payment*," a revision to SFAS No. 123, "*Accounting for Stock-Based Compensation*." SFAS No. 123R eliminates the Company's ability to use the intrinsic value method of accounting under APBO No. 25 and generally requires a public entity to reflect on its income statement, instead of pro forma disclosures in its financial footnotes, the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The grant-date fair value will be estimated using option-pricing models adjusted for the unique characteristics of those equity instruments. SFAS No. 123R is effective generally for public companies as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. SFAS No. 123R applies to all awards granted after the required effective date, to awards that are unvested as of the effective date, and to awards modified, repurchased, or cancelled after that date. As of the required effective date, all public entities that used the fair-value-based method for either recognition or disclosure under the original SFAS No. 123 will apply this revised statement. Under SFAS No. 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include modified prospective and modified retrospective adoption options. Under the modified prospective method, compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123R that remain unvested on the effective date. The modified retrospective method includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures for all prior periods presented. The Company is currently evaluating the requirements of SFAS No. 123R and will adopt this statement at the effective date. The Company expects that the adoption of this statement may have a material effect on its financial statements.

3. REVENUE RECOGNITION

Revenues from product sales are recognized based upon shipping terms, net of estimated reserves for government chargebacks, Medicaid rebates, payment discounts, and returns for credit. Revenue is recognized upon customer receipt of the shipment, provided the title to the product transfers at the point of receipt by the customer. If the title to the product transfers at the point of shipment, revenue is recognized upon shipment of the product.

The Company records estimated sales reserves against product revenues for government chargebacks, Medicaid rebates, payment discounts and product returns for credit memoranda. The Company's policy of issuing credit memoranda for expired product, which became effective for product lots released after May 31, 2004, allows customers to return expired product for credit within a six-month period after the expiration date. Customers who return expired product from production lots released after May 31, 2004 will be issued credit memoranda equal to the sales value of the product returned, and the estimated amount of such credit memoranda is

recorded as a liability with a corresponding reduction in gross product sales. This reserve will be reduced as future credit memoranda are issued, with an offset to accounts receivable.

The Company's product exchange policy, which applies to product lots released prior to June 1, 2004, allows customers to return expired product for exchange within a six-month period after the expiration date. Returns from these product lots are exchanged for replacement product, and estimated costs for such exchanges, which include actual product material costs and related shipping charges, are included in Cost of Product Sales. Returns are subject to inspection prior to acceptance. For Glofil-125 and VSL#3 the Company accepts no returns for expired product.

The Company records estimated sales reserves for expected product exchanges and credit memoranda based upon historical return rates by product, analysis of return merchandise authorizations, returns received, sales patterns, current inventory on hand at wholesalers, changes in prescription demand, and other factors such as shelf life. The Company records estimated sales reserves for Medicaid rebates and government chargebacks by analyzing historical rebate and chargeback percentages, allowable Medicaid prices, and other factors, as required. Significant judgment is inherent in the selection of assumptions and in the interpretation of historical experience as well as the identification of external and internal factors affecting the estimate of reserves for product returns, Medicaid rebates and government chargebacks. The Company routinely assesses the historical returns and other experience including customers' compliance with return goods policy and adjusts its reserves as appropriate.

Reserves for government chargebacks, Medicaid rebates, product exchanges, and product returns for credit memoranda were $2.6 million and $1.7 million at September 30, 2005 and December 31, 2004, respectively, and are classified as Sales-Related Reserves in the Consolidated Balance Sheets. The reserves at September 30, 2005 include $2.0 million for estimated product returns for credit memoranda on product lots of Acthar, Nascobal, and Ethamolin released and shipped after May 31, 2004.

In connection with the sale of Nascobal, Ethamolin and Glofil-125, the Company is responsible for all Medicaid rebates and government chargebacks on sales of these products by the Company through October 17, 2005. The Company is responsible for product returns on sales of these products by the Company through October 17, 2005, but only to the extent of actual returns of these products through January 31, 2006. Subsequent to October 17, 2005, the Company no longer has access to Nascobal and Ethamolin product inventories to facilitate product replacements under the Company's product replacement policy. As a result, credit will be provided on all returns of these products through January 31, 2006. The difference between the amount of credit issued on the divested products and the amounts accrued in the Company's product replacement and credit memorandum reserves will be considered in the determination of the computed gain on the sale of the divested products. As of September 30, 2005, the Company had product replacement and credit memoranda returns reserves related to these products of $576,000.

The Company sells product to wholesalers, who in turn sell these products to pharmacies and hospitals. In the case of VSL#3, the Company sold directly to consumers. The Company does not require collateral from its customers.

4. CASH AND CASH EQUIVALENTS

The Company considers highly liquid investments with maturities from the date of purchase of three months or less to be cash equivalents. The Company had cash and cash equivalents of $4.3 million and $8.7 million at September 30, 2005 and December 31, 2004, respectively. All cash equivalents are in money market funds and commercial paper. The fair value of the funds approximated cost.

As described in Note 15 – Sale of Nascobal, Ethamolin, and Glofil-125, the Company estimates net cash proceeds of $22.2 million from the sale of the Company's non-core products.

5. INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market and consist of the following (in thousands):

	September 30, 2005	December 31, 2004
Raw materials	$ 1,161	$ 1,239
Work in process	—	228
Finished goods	422	409
Less allowance for excess and obsolete inventories	(47)	(107)
	$ 1,536	$ 1,769

The Company has included the net book value of inventories of Nascobal, Ethamolin and Glofil-125 as of September 30, 2005 totaling $249,000 in assets held for sale on the accompanying Consolidated Balance Sheet. As described in Note 15 – Sale of Nascobal, Ethamolin, and Glofil-125, the Company sold these products on October 17, 2005. All product inventories were included in the purchase price for these products.

6. INTANGIBLE ASSETS

Goodwill no longer subject to amortization amounted to $299,000 at September 30, 2005 and December 31, 2004. The Company performed an impairment test of goodwill (including assembled workforce) during the quarter ended December 31, 2004, which resulted in an impairment charge of $180,000 related to the assembled workforce. The Company will continue to monitor the carrying value of the remaining goodwill through the annual impairment tests or more frequently if indicators of potential impairment exist. As of September 30, 2005, no indicators of potential impairment existed.

The Company has included the net book value of the intangible asset purchased technology as of September 30, 2005 totaling $14.0 million in assets held for sale on the accompanying Consolidated Balance Sheet. Purchased technology at September 30, 2005 includes the $14.2 million cost to acquire Nascobal in June 2003 and the $2.0 million paid by the Company in February 2005 related to the transfer of the New Drug Application (“NDA”) for the Nascobal nasal spray from Nastech Pharmaceutical Company Inc. (“Nastech”), less accumulated amortization of $2.2 million. The Nascobal purchased technology was amortized over its estimated life of 15 years through September 30, 2005. As described in Note 15 – Sale of Nascobal, Ethamolin, and Glofil-125, the Company sold Nascobal on October 17, 2005, which will result in recording the net book value of the Nascobal purchased technology as part of the gain on sale of the Company’s non-core products.

7. CONVERTIBLE DEBENTURES

In March 2002, the Company issued $4.0 million of 8% convertible debentures to SF Capital Partners Ltd. (“SFCP”), and Defiante Farmaceutica Lda (“Defiante”), a wholly-owned subsidiary of Sigma-Tau Finanziaria SpA (“Sigma-Tau”), a significant shareholder and affiliate of the Company. Sigma-Tau beneficially owned approximately 26% of the Company’s outstanding common stock as of September 30, 2005. The Company paid interest on the debentures at a rate of 8% per annum on a quarterly basis. The debentures were convertible into 2,531,644 shares of the Company’s common stock at a fixed conversion price of $1.58 per share (subject to adjustment for stock splits and reclassifications).

On March 8, 2005, the Company and Defiante entered into an amendment to the convertible debenture issued by the Company in favor of Defiante, extending the maturity date to April 15, 2005. On March 10, 2005, the Company and SFCP entered into an amendment to the convertible debenture issued by the Company in favor of SFCP, extending the maturity date to April 15, 2005 and amending certain of the terms of the Company’s option to repay the SFCP debenture in shares of common stock at the maturity date.

On April 15, 2005, the Company redeemed both convertible debentures in full in cash totaling $4.0 million, plus accrued interest to April 15, 2005.

8. SECURED PROMISSORY NOTE

In July 2004, the Company issued a $2.2 million secured promissory note to Defiante. The interest rate on the note was 9.83% per annum. Repayment of the note consisted of interest only for the first twelve months, with monthly principal and interest payments thereafter through August 2008. The note was secured by the Nascobal intellectual property including the NDA for the spray formulation.

As described in Note 15 – Sale of Nascobal, Ethamolin, and Glofil-125, the Company paid off the total outstanding principal and accrued interest of $2.1 million on October 17, 2005 in connection with the sale of Nascobal.

9. COMMITMENTS, INDEMNIFICATIONS AND CONTINGENCIES

The Company, as permitted under California law and in accordance with its Bylaws, indemnifies its officers and directors for certain events or occurrences while the officer or director is or was serving at the Company's request in such capacity. The potential future indemnification limit is to the fullest extent permissible under California law; however, the Company has a director and officer insurance policy that limits its exposure and may enable it to recover a portion of any future amounts paid. The Company believes the fair value of these indemnification agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of September 30, 2005.

From time to time, the Company may become involved in claims and other legal matters arising in the ordinary course of business. Management is not currently aware of any such matters that will have a material adverse affect on the financial position, results of operations or cash flows of the Company.

10. NET INCOME (LOSS) PER SHARE APPLICABLE TO COMMON SHAREHOLDERS

Basic and diluted net loss per share applicable to common shareholders is based on net loss applicable to common shareholders for the relevant period, divided by the weighted average number of common shares outstanding during the period. Diluted net income per share applicable to common shareholders would give effect to all potentially dilutive common shares outstanding during the period such as options, warrants, convertible preferred stock, and contingently issuable shares. Diluted net loss per share applicable to common shareholders has not been presented separately for the periods ended September 30, 2005 and 2004 as, due to the Company's net loss position, it is anti-dilutive. If the Company had net income per share applicable to common shareholders of $0.01 or greater for the three and nine month periods ended September 30, 2005, then shares used in calculating diluted earnings per share applicable to common shareholders would have included, if dilutive, the effect of the outstanding options to purchase 6,482,853 common shares, 11,053,930 convertible preferred shares, placement unit options for 127,679 common shares and warrants to purchase 4,539,407 common shares.

11. EQUITY TRANSACTIONS

In April 2005, the Company issued 1,344,000 shares of common stock in a private placement to holders of its Series B Preferred Stock. The shares were issued in lieu of the quarterly cash dividends payable on April 1, 2005, July 1, 2005, October 1, 2005 and January 1, 2006, and had an aggregate value equal to the dividends otherwise payable on those dates, with the shares of common stock so issued valued at fair market value based upon a ten-day weighted average trading price formula through March 29, 2005 (See Note 12 — Series B Convertible Preferred Stock).

In July 2005, shares of the Company's Series B Preferred Stock with a stated value of $25,000, less prepaid dividends of $1,400, were converted into 25,027 shares of common stock.

12. SERIES B CONVERTIBLE PREFERRED STOCK

In January 2003, the Company completed a private placement of Series B Convertible Preferred Stock and warrants to purchase common stock to various investors. Gross proceeds to the Company from the private placement were $10.0 million. Net of issuance costs, the proceeds to the Company were $9.4 million. Of the original $10.0 million stated value, Series B Convertible Preferred Stock having a stated value of $1.6 million has been converted into common stock, resulting in a stated value of $8.4 million for Series B Convertible Preferred Stock as of September 30, 2005.

According to the terms of the private placement agreement, each holder of Series B Convertible Preferred Stock is entitled to a quarterly dividend at an initial rate of 8% per year, which will increase to 10% per year on and after January 1, 2006, and to 12% on and after January 1, 2008. The dividends are paid in cash on a quarterly basis. In addition, on the occurrence of designated events, including the failure to maintain Net Cash, Cash Equivalent and Eligible Investment Balances, as defined in the Company's Certificate of Determination of Series B Preferred Stock (the "Certificate of Determination"), of at least 50% of the aggregate stated value of the outstanding shares of Series B Preferred Stock, the dividend rate will increase by an additional 6% per year.

The purchasers of the Series B Preferred Stock also received for no additional consideration warrants exercisable for an aggregate of 3,399,911 shares of Common Stock at an exercise price of $0.9412, as adjusted by agreement dated June 13, 2003, per share, subject to certain anti-dilution adjustments. The expiration date of the warrants was January 15, 2007. In January 2004 warrants to purchase 373,990 shares of common stock were surrendered as consideration, along with cash, for the issuance of 373,990 shares of common stock.

In March 2005, the Company and all of the holders of the outstanding shares of Series B Preferred Stock of the Company entered into a Series B Preferred Shareholder Agreement and Waiver. Pursuant to such agreement (i) the holders waived certain rights to receive additional dividends through March 31, 2006, (ii) the holders, with respect to dividends payable on April 1, 2005, July 1, 2005, October 1, 2005 and January 1, 2006, accepted as full and complete payment of all such dividend payments the issuance by the Company to them in a private placement of shares of the Company's common stock having an aggregate value equal to the dividends otherwise payable on those dates, with the shares of common stock so issued valued at fair market value based upon a ten-day weighted average trading price formula through March 29, 2005, and (iii) the expiration date of the warrants to purchase shares of the Company's common stock held by the holders was extended for one year, until January 15, 2008.

As a result of the extension of the warrant expiration date, the Company revalued the warrants issued to the Series B Preferred Stockholders, resulting in an incremental value of $84,000 which decreased the carrying value of the preferred stock. The warrants were valued using the Black-Scholes method with the following assumptions: a risk free interest rate of 3.9%; an expiration date of January 15, 2008; volatility of 59% and a dividend yield of 0%. In connection with the revaluation, in March 2005 the Company recorded $84,000 related to the beneficial conversion feature on the Series B Preferred Stock as an additional deemed dividend, which increased the carrying value of the Series B Preferred Stock. For the nine months ended September 30, 2005, the deemed dividend increased the net loss applicable to common shareholders in the calculation of basic and diluted net loss per common share.

In July 2005, shares of the Company's Series B Preferred Stock with a stated value of $25,000, less prepaid stock dividends of $1,400, were converted into 25,027 shares of common stock.

13. RELATED PARTY TRANSACTIONS

In December 2001, the Company entered into a promotion agreement with VSL Pharmaceuticals Inc., and its successor, Sigma-Tau Pharmaceuticals Inc. ("Sigma-Tau Pharmaceuticals"), a private company owned in part by the major shareholders of Sigma-Tau. The promotion agreement expired in January 2005, in accordance with its terms. Under these agreements, the Company agreed to purchase VSL#3 from Sigma-Tau Pharmaceuticals at a stated price, and also agreed to promote, sell, warehouse and distribute the VSL#3 product directly to customers at its cost and expense, subject to certain expense reimbursements. The Company did not accept returns of VSL#3. There was no VSL#3 revenue for the quarter ended September 30, 2005, as the agreement expired in January 2005, and minimal revenue for the nine month period ended September 30, 2005. An access fee to Sigma-Tau Pharmaceuticals was calculated quarterly, which varied based upon sales and costs incurred by the Company subject to reimbursement under certain circumstances and is included in selling, general and administrative expense in the accompanying Consolidated Statements of Operations. The Company recorded a cost reimbursement of $44,000 in the nine months ended September 30, 2005, which reduced selling, general and administrative expense. The Company recorded an expense of $258,000 related to the VSL#3 access fee in the nine months ended September 30, 2004. During the nine months ended September 30, 2005 and 2004, the Company paid $79,000 and $379,000, respectively, to Sigma-Tau Pharmaceuticals for the purchase of VSL#3 product.

14. COMPREHENSIVE INCOME (LOSS)

For the three and nine month periods ended September 30, 2005 and 2004, net loss was the same as comprehensive loss.

15. SALE OF NASCOBAL, ETHAMOLIN AND GLOFIL-125

On October 17, 2005 (the "Closing Date"), the Company sold its Nascobal, Ethamolin and Glofil-125 product lines (the "Product Lines") to QOL Medical LLC ("QOL") pursuant to an Asset Purchase Agreement (the "Agreement") between the Company and QOL executed as of the same date. Pursuant to the Agreement, QOL paid the Company an aggregate purchase price of $28.3 million and assumed the potential obligation to pay $2.0 million to Nastech upon the issuance by the U.S. Patent and Trademark Office of a patent on Nascobal nasal spray. Of the $28.3 million aggregate proceeds from the transaction, $2.1 million was paid to Defiante, to satisfy in full all amounts outstanding on the Closing Date under the promissory note issued by the Company on July 31, 2004, in favor of Defiante. In addition, $2.0 million was paid to Nastech, the prior owner of Nascobal, and the Company's supplier of Nascobal product, as an inducement for Nastech to provide additional intellectual property and contractual rights to QOL and for Nastech to consent to the assignment to QOL of its supply agreement and its asset purchase agreement with the Company. After these payments, other transaction costs and expenses, and estimated federal and state income taxes, the Company's net proceeds from the transaction are estimated to be approximately $22.2 million. The Company intends to use the net proceeds from the transaction to further its previously announced strategy to focus on products that treat diseases and disorders of the central nervous system, for working capital and for other general corporate purposes. The Company estimates a net gain from the sale of the Product Lines of approximately $10.0 million. Pursuant to the terms of the Agreement, the Company made certain representations and warranties concerning the Product Lines and the Company's authority to enter into the Agreement and consummate the transactions contemplated thereby. The Company also made certain covenants which survived the Closing Date, including a covenant not to operate a business that competes, on a worldwide basis, with the Product Lines for a period of six years from the Closing Date. In the event of a breach of the representations, warranties or covenants made by the Company, QOL will have the right, subject to certain limitations, to seek indemnification from the Company for any damages that it has suffered as result of such breach.

The following Unaudited Pro Forma Condensed Consolidated Balance Sheet as of September 30, 2005 has been prepared as if the disposition of the Product Lines occurred on September 30, 2005. The following Unaudited Pro Forma Condensed Consolidated Statement of Operations for the Nine Months Ended September 30, 2005 has been prepared as if the disposition of the Product Lines occurred on January 1, 2005. The unaudited pro forma financial information was prepared in accordance with Article 11 of the United States Securities and Exchange Commission Regulation S-X. The historical pro forma financial information as of September 30, 2005 and for the nine months ended September 30, 2005 was derived from the financial statements included in this Quarterly Report on Form 10-Q. The unaudited pro forma financial information should be read in conjunction with this report. The unaudited pro forma financial information and the related notes are provided for information purposes only and do not purport to be indicative of the results which would have been obtained had the Product Lines been sold on the dates indicated or which may be expected to occur in the future. The operating results of the Product Lines for the nine months ended September 30, 2005 represent the revenues and directly related expenses only of the Product Lines and do not purport to represent all the costs, expenses and results associated with a stand alone, separate company. In accordance with Article 11 of Regulation S-X, the Unaudited Pro Forma Condensed Consolidated Statements of Operations reflect only the pro forma impacts of the disposition of the Product Lines to the Company's continuing operations and exclude the impact of the estimated non-recurring gain and income taxes on the sale of the Product Lines. The estimated gain and income taxes were considered in the determination of the pro forma accumulated deficit as of September 30, 2005 as presented on the Unaudited Pro Forma Condensed Consolidated Balance Sheet and further disclosed in note (F) of the Notes To Unaudited Pro forma Condensed Consolidated Financial Statements.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2005
(in thousands, except share amounts)

	Historical	Pro Forma Adjustments	Notes	Pro Forma
ASSETS				
Current assets:				
Cash and cash equivalents	$ 4,341	$ 22,250	(A)	$ 26,591
Accounts receivable, net	1,983	—		1,983
Inventories, net	1,536	—		1,536
Prepaid expenses and other current assets	1,341	—		1,341
Assets held for sale, net	14,203	(14,203)	(B)	—
Total current assets	23,404	8,047		31,451
Property and equipment, net	486	—		486
Goodwill	299	—		299
Deposits and other assets	731	—		731
Total assets	$ 24,920	$ 8,047		$ 32,967
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$ 837	$ —		$ 837
Accrued compensation	649	—		649
Sales-related reserves	2,570	500	(C)	3,070
Other accrued liabilities	495	23	(D)	518
Short-term debt and current portion of long-term debt and capital lease obligation	692	(692)	(D)	—
Total current liabilities	5,243	(169)		5,074
Long-term debt and long-term portion of capital lease obligation	1,508	(1,508)	(E)	—
Other non-current liabilities	914	29	(E)	943
Preferred stock, no par value, 7,500,000 shares authorized; 2,155,715 Series A shares issued and outstanding (aggregate liquidation preference of $10,000)	5,081	—		5,081
Shareholders' equity:				
Preferred stock, no par value, 8,375 Series B shares issued and outstanding, net of issuance costs (aggregate liquidation preference of $8,375)	7,553	—		7,553
Common stock, no par value, 105,000,000 shares authorized; 52,875,815 shares issued and outstanding	89,360	—		89,360
Deferred compensation	(6)	—		(6)
Accumulated deficit	(84,733)	9,695	(F)	(75,038)
Total shareholders' equity	12,174	9,695		21,869
Total liabilities and shareholders' equity	$ 24,920	$ 8,047		$ 32,967

See accompanying notes to unaudited pro forma condensed consolidated financial statements.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005
(in thousands, except per share amounts)

	Historical	Pro Forma Adjustments	Notes	Pro Forma
Revenues:				
Net product sales	$ 12,346	$ (5,299)	(G)	$ 7,047
Operating costs and expenses:				
Cost of product sales (exclusive of amortization of purchased technology)	2,297	(785)	(H)	1,512
Selling, general and administrative	7,140	(112)	(I)	7,028
Research and development	1,597	(415)	(I)	1,182
Depreciation and amortization	953	(805)	(J)	148
Total operating costs and expenses	11,987	(2,117)		9,870
Income (loss) from operations	359	(3,182)		(2,823)
Non-cash amortization of deemed discount on convertible debentures	(108)	—		(108)
Interest income	87	582	(K)	669
Interest expense	(247)	144	(L)	(103)
Other income, net	6	—		6
Rental income, net	181	—		181
Net income (loss)	278	(2,456)		(2,178)
Non-cash deemed dividend related to beneficial conversion feature of Series B Preferred Stock	84	—		84
Dividends on Series B Preferred Stock	504	—		504
Net loss applicable to common shareholders	$ (310)	$ (2,456)		$ (2,766)
Basic and diluted net loss per share applicable to common shareholders	$ (0.01)	$ (0.04)		$ (0.05)
Shares used in computing basic and diluted net loss per share applicable to common shareholders	52,236	52,236		52,236

See accompanying notes to unaudited pro forma condensed consolidated financial statements.

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(A) The pro forma net cash adjustment totaled $22.2 million. This represented the aggregate proceeds of $28.3 million from the sale of the Product Lines offset by the pay-off by the Company of $2.2 million in outstanding debt as of September 30, 2005 that was collateralized by the Nascobal product rights, a $2.0 million payment by the Company to Nastech related to the assumption by QOL of the supply agreement to manufacture Nascobal, estimated deal related costs of $1.6 million, and estimated federal and state income taxes of $300,000.

(B) The Company classified the net book value of inventories of the Product Lines and Nascobal purchased technology of $249,000 and $14.0 million, respectively, as assets held for sale as of September 30, 2005. These assets were eliminated for pro forma purposes.

(C) In connection with the sale of the Product Lines, the Company is responsible for all Medicaid rebates and government chargebacks on sales of the Product Lines by the Company through October 17, 2005. The Company is responsible for product returns on sales of the Product Lines by the Company through October 17, 2005, but only to the extent of actual returns of the Product Lines through January 31, 2006. Subsequent to October 17, 2005, the Company no longer has access to inventories of the Product Lines to facilitate product replacements under the Company's product replacement policy. As a result, credit will be provided on all returns of the Product Lines through January 31, 2006. As of September 30, 2005, the Company had product replacement and returns reserves related to the Product Lines of $576,000. The Company estimates that the amount of credit issued on the Product Lines will be approximately $500,000 greater than the amounts accrued in the Company's product replacement and credit memorandum reserves.

(D) In connection with the sale of the rights to Nascobal, the Company paid-off the current and long-term portions of the Company's $2.2 million outstanding debt as of September 30, 2005 that was collateralized by the Nascobal product rights of which $669,000 was included in current liabilities as of September 30, 2005. In addition, for pro forma purposes, the Company reclassified the current portion of its other short-term debt and capital lease obligation of $23,000 to other accrued liabilities.

(E) In connection with the sale of the rights to Nascobal, the Company paid-off the current and long-term portions of the Company's $2.2 million outstanding debt as of September 30, 2005 that was collateralized by the Nascobal product rights of which $1.5 million was classified as long-term debt as of September 30, 2005. In addition, for pro forma purposes, the Company reclassified the long-term portion of its other long-term debt and capital lease obligation of $29,000 to other non-current liabilities.

(F) Accumulated deficit as of September 30, 2005 decreased for pro forma purposes by $9.7 million resulting from an estimated $10.0 million pre-tax gain on the sale of the Product Lines, assuming for pro forma purposes that the Product Lines were sold on September 30, 2005, less estimated federal and state income taxes of $300,000. The pre-tax gain on the sale of the Product Lines represented the aggregate proceeds of $28.3 million less the $2.0 million payment to the manufacturer of Nascobal, net purchased technology of $14.0 million as of September 30, 2005, net inventories of 249,000 as of September 30, 2005, the pro forma product returns reserve adjustment of $500,000, and estimated deal related costs of $1.6 million. The estimated income taxes result from the limitation of the use of the Company's net operating loss carry forwards when calculating alternative minimum taxable income.

(G) The Company had net product sales of $5.3 million related to the Product Lines for the nine months ended September 30, 2005 that was eliminated for pro forma purposes.

(H) The Company had cost of product sales of $785,000 related to the Product Lines for the nine months ended September 30, 2005 that was eliminated for pro forma purposes.

(I) The Company had selling, general, and administrative expenses and research and development costs directly related to the Product Lines of $527,000 during the nine months ended September 30, 2005 that were eliminated for pro forma purposes.

(J) The Company had product rights amortization of $805,000 related to the Product Lines for the nine months ended September 30, 2005 that was eliminated for pro forma purposes.

(K) The Company recorded a pro forma adjustment to interest income of $582,000 for the nine months ended September 30, 2005 assuming the transactions described herein and the Company's average risk free interest rate of 2.8% for the nine months ended September 30, 2005.

(L) In connection with the sale of the rights to Nascobal, the Company paid-off the current and long-term portions of the Company's $2.2 million outstanding debt as of September 30, 2005 that was collateralized by the Nascobal product rights and eliminated interest expense related to this debt of $144,000 for the nine months ended September 30, 2005.

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

Except for the historical information contained herein, the following discussion contains forward-looking statements that involve risks and uncertainties, including statements regarding the period of time during which our existing capital resources and income from various sources will be adequate to satisfy our capital requirements. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this section, as well as those discussed in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004, including Item 1 "Business of Questcor," "Risk Factors," as well as factors discussed in any documents incorporated by reference herein or therein. Whenever used in this Quarterly Report, the terms "Questcor," "Company," "we," "our," "ours," and "us" refer to Questcor Pharmaceuticals, Inc. and its consolidated subsidiaries.

Overview

We are a specialty pharmaceutical company that focuses on developing and commercializing novel therapeutics for the treatment of neurological disorders. We focus on the treatment of diseases and disorders of the central nervous system ("CNS"), which are served by a limited group of physicians such as neurologists. Our strategy is to acquire pharmaceutical products that we believe have sales growth potential, are promotionally responsive to a focused and targeted sales and marketing effort, complement our therapeutic focus on neurology and can be acquired at a reasonable valuation relative to our cost of capital. During the three and nine month periods ended September 30, 2005, we owned and distributed four products in the United States:

- H.P. Acthar Gel ("Acthar"), an injectable drug that is approved for the treatment of certain CNS disorders with an inflammatory component including the treatment of flares associated with multiple sclerosis ("MS") and is also commonly used in treating patients with infantile spasm;
- Nascobal, a prescription nasal gel used for the treatment of various Vitamin B-12 deficiencies including Vitamin B-12 deficiencies associated with Crohn's disease, gastric bypass surgery and MS;
- Ethamolin, an injectable drug used to treat enlarged weakened blood vessels at the entrance to the stomach that have recently bled, known as esophageal varices; and
- Glofil-125, an injectable agent that assesses how well the kidney is working by measuring glomerular filtration rate, or kidney function.

In January 2005, our agreement to promote and sell VSL#3 expired in accordance with its terms.

Our strategy, which we announced in April 2005, is to focus on developing and commercializing products that treat CNS diseases and disorders. As part of this strategy, we are initially focusing our promotional efforts on Acthar, our neurological product. We also intend to pursue the licensing and acquisition of products that are consistent with our focus on neurology. In addition, we intend to develop new products that have the potential to address significant unmet medical needs in the CNS field, using both our own intellectual property and intellectual property licensed from other companies. In connection with this strategy, on October 17, 2005, we sold our non-core products Nascobal, Ethamolin, and Glofil-125 for aggregate proceeds of $28.3 million. Further details regarding the sale of these products are described in this Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 15 – Sale of Nascobal, Ethamolin, and Glofil-125 of the accompanying Notes to Consolidated Financial Statements.

Consistent with our prior focus on sales and marketing, our spending on research and development activities to date is modest. Expenses incurred for the Acthar manufacturing site transfer and medical and regulatory affairs are classified as Research and Development Expenses in the accompanying unaudited Consolidated Statements of Operations. We expect our research and development spending to increase in the future as we implement our new strategy. We have entered into agreements with pharmaceutical and biotechnology companies to further the development of certain acquired technology. In June 2002, we signed a definitive License Agreement with Fabre-Kramer Pharmaceuticals, Inc. ("Fabre-Kramer"), whereby we granted Fabre-Kramer

exclusive worldwide rights to develop and commercialize Hypnostat™ (intranasal triazolam for the treatment of insomnia) and Panistat™ (intranasal alprazolam for the treatment of panic disorders). We have a development agreement with Rigel Pharmaceuticals, Inc. of South San Francisco, California for our antiviral drug discovery program, and a development agreement with Dainippon Pharmaceuticals Co., Ltd. of Osaka, Japan for our antibacterial program.

We have incurred an accumulated deficit of $84.7 million at September 30, 2005. At September 30, 2005, we had $4.3 million in cash and cash equivalents. Results of operations may vary significantly from quarter to quarter depending on, among other factors, the results of our sales efforts, prescription demand for our products, inventory levels of our products at wholesalers, timing of expiration of our products, shipment of replacement product under our product exchange policy, future credit memoranda to be issued under our credit memoranda policy, the availability of finished goods from our sole-source manufacturers, the timing of certain expenses, the acquisition of marketed products, and the establishment of strategic alliances and corporate partnering arrangements.

Critical Accounting Policies

Our management's discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. On an on-going basis, we evaluate our estimates, including those related to sales reserves, product returns, bad debts, inventories and intangible assets. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Product Returns, Rebates and Sales Reserves

We have estimated reserves for product returns from wholesalers, hospitals and pharmacies, government chargebacks for goods purchased by certain Federal government organizations including the Veterans Administration, Medicaid rebates to all states for goods purchased by patients covered by Medicaid, and cash discounts for prompt payment. We estimate our reserves by utilizing historical information for existing products and data obtained from external sources. For new products, we estimate our reserves for product returns, government chargebacks and rebates on specific terms for product returns, chargebacks and rebates, and our experience with similar products.

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 estimates of our reserves for product returns, government chargebacks, and Medicaid rebates. We believe that the assumptions used to estimate these sales reserves are the most reasonably likely assumptions considering known facts and circumstances. However, our product return activity, government chargebacks received, and Medicaid rebates paid could differ significantly from our estimates because our analysis of product shipments, prescription trends and the amount of product in the distribution channel may not be accurate. If actual product returns, government chargebacks, and Medicaid rebates are significantly different from our estimates, or if the wholesalers fail to adhere to our exchange or credit memoranda policy, such differences would be accounted for in the period in which they become known. To date, actual amounts have been consistent with our estimates.

We have a product exchange policy, effective for product lots released prior to June 1, 2004, in which we ship replacement product for expired product returned to us within six months after expiration. The estimated costs for such potential exchanges, which include actual product costs and related shipping charges, are included in cost of product sales. A reserve for estimated returns on shipments of product lots released and shipped prior to June 1, 2004 has been recorded as a liability in the amount of $128,000 as of September 30, 2005. This reserve reflects an estimate of future product replacements, applied to the quantity of product shipped from lots subject to the product exchange policy. The reserve will be reduced as future product replacements occur, with an offset to product inventories.

During the second quarter of 2004 we implemented a transition plan for expired product returns from the product exchange policy to a credit memoranda policy for the return of expired product within six months after the expiration date. Expired product returned from lots released after May 31, 2004 is subject to a credit memoranda policy in which a credit memoranda will be issued for the

original purchase price of the returned product. A reserve for the sales value of estimated returns on shipments of product lots released and shipped after May 31, 2004 has been recorded as a liability in the amount of $2.0 million as of September 30, 2005 with a corresponding reduction in gross product sales. This reserve reflects an estimate of future credit memoranda to be issued, applied to the quantity of product shipped from lots subject to the credit memoranda policy. The reserve will be reduced as future credit memoranda are issued, with an offset to accounts receivable. Total sales-related reserves increased to $2.6 million at September 30, 2005 from $1.7 million at December 31, 2004. The increase in total sales-related reserves includes an increase of $899,000 for reserves recorded under our credit memoranda policy in the first nine months of 2005.

In estimating returns for each product, we analyze (i) historical returns and sales patterns, (ii) current inventory on hand at wholesalers and the remaining shelf life of that inventory (ranging from 18 months to 3 years for all products except Glofil-125, which is not subject to our product return policy), and (iii) changes in demand measured by prescriptions or other data as provided by an independent third party source and our internal estimates. We believe that the information obtained from wholesalers regarding inventory levels and from independent third parties regarding prescription demand is reliable, but we are unable to independently verify the accuracy of such data. For Glofil-125, we accept no returns for expired product. We routinely assess our historical experience including customers' compliance with our product exchange policy, and we adjust our reserves as appropriate.

In estimating Medicaid rebates, we match the actual rebates to the quantity of product sold by pharmacies on a product-by-product basis to arrive at an actual rebate percentage. This historical percentage is used to estimate a rebate percentage that is applied to the sales to which the rebates apply to arrive at the estimated rebate reserve for the period. We also consider allowable prices by Medicaid. In estimating government chargeback reserves, we analyze actual chargeback amounts by product and apply historical chargeback rates to sales to which chargebacks apply. We routinely assess our experience with Medicaid rebates and government chargebacks and adjust the reserves accordingly.

For qualified customers, we grant payment terms of 2%, net 30 days. Allowances for cash discounts are estimated based upon the amount of trade accounts receivable as of the period end that are subject to the cash discounts.

In connection with the sale of Nascobal, Ethamolin and Glofil-125, we are responsible for all Medicaid rebates and government chargebacks on our sales of these products through October 17, 2005. We are responsible for product returns on our sales of these products through October 17, 2005, but only to the extent of actual returns of these products through January 31, 2006. Subsequent to October 17, 2005, we no longer have access to Nascobal and Ethamolin product inventories to facilitate product replacements under our product replacement policy. As a result, credit will be provided on all returns of these products through January 31, 2006. The difference between the amount of credit issued on the divested products and the amounts accrued in our product replacement and credit memorandum reserves will be considered in the determination of the computed gain on the sale of the divested products. As of September 30, 2005, we had product replacement and returns reserves related to these products of $576,000.

Inventories

We maintain inventory reserves primarily for excess and obsolete inventory (due to the expiration of shelf life of a product). In estimating inventory excess and obsolescence reserves, we analyze on a product-by-product basis (i) the expiration date, (ii) our sales forecasts, and (iii) historical demand. Judgment is required in determining whether the forecasted sales information is sufficiently reliable to enable us to reasonably estimate excess and obsolete inventory. If actual future usage and demand for our products are less favorable than those projected by our management, additional inventory write-offs may be required in the future.

We intend to control inventory levels of our products purchased by our customers. Customer inventories may be compared to both internal and external databases to determine adequate inventory levels. We may monitor our product shipments to customers and compare these shipments against prescription demand for our individual products.

Intangible Assets

As of September 30, 2005, we have intangible assets related to purchased technology and goodwill. The determination of related estimated useful lives and whether or not these assets are impaired involves significant judgment. Changes in strategy or market conditions could significantly impact these judgments and require adjustments to recorded asset balances. In accordance with SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets,"* we review intangible assets, as well as other long-lived assets, for impairment whenever events or circumstances indicate that the carrying amount may not be fully recoverable. In accordance with SFAS No. 142, *"Goodwill and Other Intangible Assets,"* we review goodwill and other intangible assets with no definitive lives for impairment on an annual basis. Our fair value is compared to the carrying value of our net assets, including the

intangible assets. If the fair value is greater than the carrying amount, then no impairment is indicated. As of September 30, 2005, no impairment has been indicated.

Results of Operations

Three months ended September 30, 2005 compared to the three months ended September 30, 2004:

Total Revenues

	Three Months Ended September 30,			
	2005	2004	(Decrease)	% Change
	(in $000's)			
Net product sales	$3,558	$3,869	$(311)	(8)%

Total revenues for the quarter ended September 30, 2005, which consisted of net product sales only, decreased $311,000, or 8%, from the quarter ended September 30, 2004. Third quarter 2004 net product sales included $372,000 in net product sales of VSL#3. There were no VSL#3 net product sales for the third quarter of 2005, as our promotion agreement with Sigma-Tau Pharmaceuticals expired in January 2005. Third quarter 2005 net product sales of Acthar were $2.0 million, which increased $39,000, or 2%, as compared to net product sales in the third quarter of 2004. The increase in net product sales of Acthar consisted of a 16% increase in average selling price offset by a 14% decline in units sold. Net product sales for the three months ended September 30, 2005 included $1.6 million of net product sales related to the divested products.

We review the amount of inventory of our products at the wholesale level in order to help assess the demand for our products. We may choose to defer sales in situations where we believe inventory levels are already adequate. We expect quarterly fluctuations in net product sales due to the timing of shipments, changes in wholesaler inventory levels, expiration dates of products sold, the timing of replacement units shipped under our product exchange policy, the impact of reserves provided for under our credit memoranda policy and the allocation of promotional efforts.

Cost of Product Sales

Cost of product sales for the quarter ended September 30, 2005 decreased $321,000, or 38%, to $522,000 from $843,000 for the quarter ended September 30, 2004. Cost of product sales as a percentage of net product sales was 14.7% for the quarter ended September 30, 2005, as compared to 21.8% for the quarter ended September 30, 2004. Cost of product sales includes material cost, packaging, warehousing and distribution, product liability insurance, royalties, quality control, quality assurance and write-offs of excess or obsolete inventory. The decrease in cost of product sales and our improvement in product margin is primarily due to a decrease in (a) material, shipping and other costs of $183,000 resulting from the expiration of the VSL#3 promotion agreement with Sigma-Tau Pharmaceuticals in January 2005, (b) product replacement costs of $62,000 resulting from product shipments in the third quarter of 2005 that were subject to our credit memoranda return policy, rather than our product replacement policy, (c) Acthar royalties of $67,000 resulting from the inclusion of our credit memo returns reserves as an offset in computing net sales subject to royalties, and (d) distribution costs of $38,000 resulting from a contractual offset to our third quarter 2005 distribution fees due to one of our wholesalers. We expect per unit material costs for Acthar to increase in the future due to higher contract manufacturing and laboratory costs, which we anticipate could decrease our gross margin on Acthar. Cost of product sales for the three months ended September 30, 2005 included $223,000 of direct product costs related to the divested products.

Selling, General and Administrative

	Three Months Ended September 30,			
	2005	2004	(Decrease)	% Change
		(in $000's)		
Selling, general and administrative expense	$2,298	$3,415	$(1,117)	(33)%

Selling, general and administrative expenses for the quarter ended September 30, 2005 decreased $1.1 million from the quarter ended September 30, 2004. The decrease was primarily due to $920,000 in severance-related charges in the third quarter of 2004 associated with the departure of our former Chief Executive Officer, lower salaries and related expenses in 2005 resulting from personnel changes and the realignment of the sales force, and a $145,000 reduction in access fees and other direct operating costs related to the promotion of VSL#3 resulting from the expiration of the promotion agreement with Sigma-Tau Pharmaceuticals in January 2005. The decreases were partially offset by higher professional fees as compared to the quarter ended September 30, 2004.

Research and Development

Research and development expenses for the quarter ended September 30, 2005 were $536,000, an increase of $14,000 as compared to $522,000 for the quarter ended September 30, 2004. The costs included in research and development relate primarily to our medical and regulatory affairs compliance activities and manufacturing site transfers. Research and development expenses for the three months ended September 30, 2005 included $138,000 of direct expenses related to the divested products.

In 2003, we transferred the Acthar final fill and packaging process to our contract manufacturer, Chesapeake Biological Laboratories Inc. ("CBL"), and produced our first lot of Acthar finished vials. In 2004, we transferred the Acthar active pharmaceutical ingredient ("API") manufacturing process to our contract manufacturer, BioVectra dcl ("BioVectra"), and produced the first BioVectra API lot. We also selected a new contract laboratory to perform three bioassays associated with the release of API and finished vials. Two of these bioassays have been successfully transferred to the contract laboratory and were approved by the FDA in June 2005. We have experienced delays and cost overruns in the validation of the third assay, potency. In 2004, we conducted additional studies aimed at identifying critical differences in the way the potency assay is performed at the contract laboratory as compared with the previous laboratory. Some differences were identified and corrected, however, results were still not acceptable. Work on this assay transfer was restarted in the second quarter of 2005. Our former contract manufacturer has agreed to perform any potency assays we require through 2006. In the remainder of fiscal year 2005, the costs which we plan to incur related to the API manufacturing site transfer and the bioassay transfers are expected to be less than the costs incurred in 2004.

Depreciation and Amortization

Depreciation and amortization expense for the quarter ended September 30, 2005 increased to $319,000 from $306,000 for the quarter ended September 30, 2004. This increase was due primarily to the amortization of the $2.0 million we paid to Nastech in February of 2005 upon the approval of the NDA for Nascobal nasal spray. The Nascobal purchased technology is being amortized over 15 years. Depreciation and amortization expense for the three months ended September 30, 2005 included $277,000 of amortization expense related to the divested products.

Other Income and Expense Items

	Three Months Ended September 30,		Increase/ (Decrease)
	2005	2004	
		(in $000's)	
Non-cash amortization of deemed discount on convertible debentures	$ —	$(130)	$130
Interest income	29	24	5
Interest expense	(38)	(118)	80
Other income	5	5	—
Rental income, net	67	70	(3)

We did not record any non-cash amortization of deemed discount on convertible debentures for the quarter ended September 30, 2005 as compared to $130,000 for the quarter ended September 30, 2004. The deemed discount was fully amortized as of March 15,

2005 when the convertible debentures were scheduled to mature. The convertible debentures were issued in March 2002. In March 2005, the maturity date of the convertible debentures was extended to April 15, 2005, on which date we redeemed such convertible debentures in full in cash.

Interest income for the quarter ended September 30, 2005 increased by $5,000 from the quarter ended September 30, 2004. The increase was primarily due to higher interest rates in the third quarter of 2005 compared to the same period in 2004. Interest expense for the quarter ended September 30, 2005 decreased by $80,000 from the quarter ended September 30, 2004. The decrease was due to the redemption of our convertible debentures in April 2005. Interest expense for the three months ended September 30, 2005 consists of interest expense on the $2.2 million promissory note we issued to a wholly-owned subsidiary of Sigma-Tau, Defiante Farmaceutica Lda, in July 2004. The promissory note was paid off on October 17, 2005 in connection with the sale of our non-core products.

Rental income, net, for the quarter ended September 30, 2005 decreased by $3,000 from the quarter ended September 30, 2004. Rental income, net, arises primarily from the lease and sublease of our former headquarters facility in Hayward, California. We have been notified by our tenant that they will be vacating the Hayward facility on July 31, 2006. We are beginning the process to search for a new tenant. We are obligated to pay rent on this facility of $6.0 million through 2012.

Series B Preferred Stock Dividends

Preferred Stock dividends of $168,000 for each of the quarters ended September 30, 2005 and 2004 represent the 8% dividend paid quarterly to our Series B Preferred Stockholders. The dividend for the quarters ended September 30, 2005 and 2004 were paid in common stock and cash, respectively. In March 2005, we reached agreement with all of the holders of the outstanding shares of our Series B Preferred Stock to accept a private placement of shares of our common stock having an aggregate value equal to the dividends payable on April 1, 2005, July 1, 2005, October 1, 2005 and January 1, 2006. The dividend rate increases to 10% on January 1, 2006.

Nine months ended September 30, 2005 compared to the nine months ended September 30, 2004:

Total Revenues

	Nine Months Ended September 30,			
	2005	2004	(Decrease)	% Change
	(in $000's)			
Net product sales	$12,346	$13,107	$(761)	(6)%

Total revenues for the nine months ended September 30, 2005, which consisted of net product sales only, decreased $761,000, or 6%, from the nine months ended September 30, 2004. Net product sales for the nine months ended September 30, 2004 included $1.1 million in net product sales of VSL#3. Net product sales of VSL#3 were $71,000 during the nine months ended September 30, 2005, as our promotion agreement with Sigma-Tau Pharmaceuticals expired in January 2005. Net product sales of Acthar during the nine months ended September 30, 2005 were $7.0 million, which increased $1.8 million, or 35%, as compared to net product sales in the same period of 2004. The increase in net product sales of Acthar consisted of a 15% increase in average selling price and a 25% increase in units sold offset by an increase in Acthar sales reserves to 21% of gross sales during the nine months ended September 30, 2005 from 16% for the same period in 2004. The increase in Acthar sales reserves as a percent of gross sales was due to an increase in the credit memo returns reserve as lots of Acthar transitioned from our product replacement policy and an increase in the Acthar Medicaid rebate reserve resulting from our price increases in 2005. Net product sales for the nine months ended September 30, 2005 included $5.3 million of net product sales related to the divested products.

Cost of Product Sales

Cost of product sales for the nine months ended September 30, 2005 decreased $363,000, or 14%, to $2.3 million from $2.7 million for the nine months ended September 30, 2004. Cost of product sales as a percentage of net product sales was 19% for the nine months ended September 30, 2005 as compared to 20% for the same period in 2004. The decrease in cost of product sales and our improved product margin was primarily due to decreases in direct material and shipping related costs of approximately $463,000 as a result of the expiration of the VSL#3 promotion agreement with Sigma-Tau Pharmaceuticals in January 2005 and product replacement costs of $87,000 resulting from product shipments during the nine months ended September 30, 2005 that were subject to our credit memoranda return policy, rather than our product replacement policy, offset by an increase of $240,000 for routine product

quality control and assurance activities, primarily related to Acthar. We expect per unit material costs for Acthar to increase in the future due to higher contract manufacturing and laboratory costs, which we anticipate could decrease our gross margin on Acthar. Cost of product sales for the nine months ended September 30, 2005 included $785,000 of direct product costs related to the divested products.

Selling, General and Administrative

	Nine Months Ended September 30,			
	2005	2004	(Decrease)	% Change
		(in $000's)		
Selling, general and administrative expense	$7,140	$8,958	$(1,818)	(20)%

Selling, general and administrative expenses for the nine months ended September 30, 2005 decreased $1.8 million from the nine months ended September 30, 2004. The decrease was primarily due to $920,000 in severance-related charges in the third quarter of 2004 associated with the departure of our former Chief Executive Officer, lower salaries and related expenses in 2005 resulting from personnel changes and the realignment of our sales force, and a $512,000 reduction in access fees and other direct operating costs related to the promotion of VSL#3 resulting from the expiration of the promotion agreement with Sigma-Tau Pharmaceuticals in January 2005. Selling, general and administrative expenses for the nine months ended September 30, 2005 included $112,000 of direct expenses related to the divested products.

Research and Development

Research and development expenses for the nine months ended September 30, 2005 were $1.6 million, an increase of $76,000 as compared to $1.5 million for the nine months ended September 30, 2004. The increase as compared to the same period in 2004 was due primarily to increased regulatory fees, patent-related legal fees and consulting costs, offset by decreased Acthar manufacturing site transfer costs. Research and development expenses for the nine months ended September 30, 2005 included $415,000 of direct expenses related to the divested products.

Depreciation and Amortization

Depreciation and amortization expense for the nine months ended September 30, 2005 increased to $953,000 from $905,000 for the nine months ended September 30, 2004, primarily due to the amortization of the $2.0 million we paid to Nastech in February of 2005 upon the approval of the NDA for Nascobal nasal spray. The Nascobal purchased technology is being amortized over 15 years. Depreciation and amortization expense for the nine months ended September 30, 2005 included $805,000 of amortization expense related to the divested products.

Other Income and Expense Items

	Nine Months Ended September 30,		Increase/ (Decrease)
	2005	2004	
		(in $000's)	
Non-cash amortization of deemed discount on convertible debentures	$(108)	$(392)	$284
Interest income	87	48	39
Interest expense	(247)	(282)	35
Other income	6	8	(2)
Rental income, net	181	212	(31)

Non-cash amortization of deemed discount on convertible debentures for the nine months ended September 30, 2005 decreased by $284,000 from the nine months ended September 30, 2004, due to the deemed discount being fully amortized as of March 15, 2005, when the convertible debentures were scheduled to mature. In March 2005, the maturity date of the convertible debentures was extended to April 15, 2005, on which date we redeemed such convertible debentures in full in cash.

Interest income for the nine months ended September 30, 2005 increased by $39,000 from the nine months ended September 30, 2004. The increase was primarily due to higher cash balances during the first quarter of 2005 and higher interest rates in the nine

months ended September 30, 2005. Interest expense for the nine months ended September 30, 2005 decreased by $35,000 from the nine months ended September 30, 2004. Interest expense consists primarily of interest on our convertible debentures and on the $2.2 million promissory note we issued to a wholly-owned subsidiary of Sigma-Tau, Defiante Farmaceutica Lda, in July 2004. The decrease was primarily due the decrease in interest expense on the convertible debentures redeemed in April 2005, partially offset by an additional six months of interest in 2005 on the $2.2 million promissory note. We paid-off the outstanding balance of the promissory note on October 17, 2005 in connection with the sale of our non-core products. Interest expense for the nine months ended September 30, 2005 included $144,000 of interest on the promissory note that was paid off on October 17, 2005.

Rental income, net, for the nine months ended September 30, 2005 decreased by $31,000 from the nine months ended September 30, 2004. The decrease in rental income, net, relates primarily to a sublease that was not renewed on our building in Carlsbad, California. Rental income, net, arises primarily from the lease and sublease of our former headquarters facility in Hayward, California. We have been notified by our tenant that they will be vacating the Hayward facility on July 31, 2006. We are beginning the process to search for a new tenant. We are obligated to pay rent on this facility of $6.0 million through 2012.

Series B Preferred Stock Dividends

Preferred Stock dividends of $504,000 and $508,000 for the nine months ended September 30, 2005 and 2004, respectively, represent the 8% dividends paid quarterly to our Series B Preferred Stockholders. The dividends for the nine months ended September 30, 2005 and 2004 were paid in common stock and cash, respectively. The dividend rate increases to 10% on January 1, 2006.

The non-cash deemed dividend of $84,000 for the nine months ended September 30, 2005 is related to the revaluation of the warrants issued to the Series B Preferred Stockholders, which resulted in an incremental value of $84,000 that decreased the carrying value of the preferred stock. In connection with the revaluation, the Company recorded $84,000 related to the beneficial conversion feature on the Series B Preferred Stock as an additional deemed dividend, which increased the carrying value of the Series B Preferred Stock. For the nine months ended September 30, 2005, the deemed dividend increased the net loss applicable to common shareholders in the calculation of basic and diluted net loss per common share.

Liquidity and Capital Resources

We have funded our activities to date principally through various issuances of equity securities and debt. We have also funded our activities to date to a lesser extent through product sales. In addition, we expect to generate net cash proceeds of approximately $22.2 million from the sale of our non-core products.

At September 30, 2005, we had cash and cash equivalents of $4.3 million compared to $8.7 million at December 31, 2004. The decrease in our cash balance is due primarily to the redemption of our convertible debentures in cash totaling $4.0 million in April 2005. At September 30, 2005, our working capital was $18.2 million compared to $5.1 million at December 31, 2004. The increase in our working capital was principally due to the classification of $14.0 million of net purchased technology as of September 30, 2005 within assets held for sale, which represents the purchased technology associated with our Nascobal product that we sold in October 2005. This increase was offset by the $2.0 million payment we made to Nastech upon approval of the NDA for the Nascobal spray in February 2005.

As of March 31, 2005, we had 8% convertible debentures with a face value of $4.0 million outstanding, $2.0 million issued to Defiante, and $2.0 million issued to SF Capital Partners Ltd. (“SFCP”), an institutional investor. Under the original terms of the debentures, we could redeem SFCP’s debenture at maturity for stock, subject to certain limitations, and we could redeem Defiante’s debenture for stock at maturity, provided the market price of our common stock at the time of redemption was greater than $1.50 per share (representing the five day average closing sale price of our common stock immediately prior to March 15, 2002). If the price of our common stock was not greater than $1.50 per share on March 15, 2005, we would have been required to pay $2.0 million in cash to Defiante to redeem the convertible debenture.

The original maturity date of the debentures was March 15, 2005. On March 8, 2005, we entered into an amendment to the debenture with Defiante, extending the maturity date to April 15, 2005. On March 10, 2005, we entered into an amendment to the debenture with SFCP, extending the maturity date to April 15, 2005 and amending certain of the terms of our option to repay the SFCP debenture in shares of common stock at the maturity date. On April 15, 2005, we redeemed both convertible debentures in cash totaling $4.0 million, plus accrued interest.

In connection with our acquisition of Nascobal, we also agreed to acquire the rights to Nascobal nasal spray, an alternative dosage form of Vitamin B-12. In February 2005, upon approval by the FDA of an NDA filed by Nastech in December 2003 for Nascobal nasal spray, Nastech was obligated to transfer the NDA to us, and we were obligated to pay $2.0 million to Nastech. We made the $2.0 million payment to Nastech in February 2005.

In July 2004, we issued a $2.2 million secured promissory note to Defiante. We paid this note off on October 17, 2005 in connection with the sale of our non-core products. The note was secured by the Nascobal intellectual property including the NDA for the spray formulation. The note, bearing interest at 9.83% per annum, required interest only payments for the first twelve months, with monthly principal and interest payments thereafter through August 2008.

In August 2004, Mr. Charles J. Casamento resigned as Chairman, President and CEO of the Company. Under the separation agreement entered into by us and Mr. Casamento, and consistent with certain terms of his employment agreement, we (i) will continue to pay Mr. Casamento his regular monthly base salary of $38,208 for 18 months, (ii) paid the prorated portion of his 2004 annual bonus potential in the amount of $136,294 in August 2004, and (iii) extended the exercise period for 18 months of 129,251 stock options with an exercise price of $1.25 per share. All other stock options held by Mr. Casamento expired on November 3, 2004. Although certain payments are being paid on a monthly basis over the 18 months, Mr. Casamento will not be performing further services for us, other than part-time consulting services, if requested by the Company.

In January 2003, we completed a private placement of Series B Convertible Preferred Stock and warrants to purchase common stock to various healthcare investors. Our gross proceeds from the private placement were $10.0 million. Net of issuance costs, our proceeds were $9.4 million. The Series B Preferred Stock had an aggregate stated value at the time of issuance of $10.0 million and is entitled to a quarterly dividend at an initial rate of 8% per year, which will increase to 10% per year on and after January 1, 2006, and to 12% on and after January 1, 2008. The dividends are paid in cash on a quarterly basis. In addition, on the occurrence of designated events the dividend rate will increase by an additional 6% per year.

On March 29, 2005, we entered into a Series B Preferred Shareholder Agreement and Waiver with all of the holders of the outstanding shares of our Series B Preferred Stock. Pursuant to such agreement (i) the holders waived certain rights to receive additional dividends through March 31, 2006, (ii) the holders, with respect to dividends payable on April 1, 2005, July 1, 2005, October 1, 2005 and January 1, 2006, accepted as full and complete payment of all such dividend payments the issuance by us to them in a private placement of shares of our common stock having an aggregate value equal to the dividends otherwise payable on those dates, with the shares of common stock so issued valued at fair market value based upon a ten-day weighted average trading price formula through March 29, 2005, and (iii) the expiration date of the warrants to purchase shares of our common stock held by the holders was extended for one year, until January 15, 2008. Accordingly, on April 1, 2005, we issued 1,344,000 shares of common stock in a private placement to holders of our Series B Convertible Preferred Stock.

The Series B Preferred Stock is entitled to a liquidation preference over our common stock and Series A Preferred Stock upon a liquidation, dissolution or winding up of Questcor. The Series B Preferred Stock is convertible at the option of the holder into our common stock at a conversion price of $0.9412 per share, subject to certain anti-dilution adjustments. To date, Series B Preferred Stock having a stated value of $1.6 million and accrued and unpaid dividends, net of prepaid dividends, of $16,000 have been converted into 1,749,939 shares of common stock. We have the right commencing on January 1, 2006 (assuming specified conditions are met) to redeem the Series B Preferred Stock at a price of 110% of stated value, together with all accrued and unpaid dividends and arrearage interest. In addition, upon the occurrence of designated Optional Redemption Events, the holders have the right to require us to redeem the Series B Preferred Stock at 100% of its stated value ($8.4 million at September 30, 2005), together with all accrued and unpaid dividends and accrued interest. The terms of the Series B Preferred Stock contain a variety of affirmative and restrictive covenants, including limitations on indebtedness and liens. Each share of Series B Preferred Stock is generally entitled to a number of votes equal to 0.875 times the number of shares of common stock issuable upon conversion of such share of Series B Preferred Stock. The purchasers of the Series B Preferred Stock also received for no additional consideration warrants exercisable for an aggregate of 3,399,911 shares of our common stock at an exercise price of $1.0824 per share, subject to certain anti-dilution adjustments. In June 2003, the exercise price of the warrants was adjusted to $0.9412 per share. In March 2005, the expiration date of the warrants was extended from January 2007 to January 2008. In January 2004 warrants to purchase 373,990 shares of common stock were surrendered as consideration, along with cash, for the issuance of 373,990 shares of common stock.

Based on our internal forecasts and projections, we believe that our cash on hand at September 30, 2005 and the net cash generated from the sale of our non-core products will be sufficient to fund operations through at least September 30, 2006, unless a substantial portion of our cash is used for product acquisitions and our revenues are significantly less than we expect.

Our future funding requirements will depend on many factors, including: our existing cash balance; the implementation of our business strategy; the timing and extent of product sales; returns of expired product; the acquisition and licensing of products, technologies or compounds, if any; the repositioning of our product portfolio; our ability to manage growth; competing technological and market developments; costs involved in filing, prosecuting, defending and enforcing patent and intellectual property claims; the receipt of licensing or milestone fees from current or future collaborative and license agreements, if established; the timing of regulatory approvals; the timing and successful completion of the Acthar bioassay transfer; payment of dividends and compliance to prevent additional dividend events; any expansion or acceleration of our development programs or optional redemption events, and other factors.

If our cash balance and our revenues are not sufficient to meet our obligations, or if we are unable to maintain compliance with certain covenants when applicable and thus avoid the payment of additional dividends of 6% to the holders of our Series B Convertible Preferred Stock, or if we have insufficient funds to acquire additional products or expand our operations, we will seek to raise additional capital through public or private equity financing or from other sources. However, traditional asset-based debt financing has not been available on acceptable terms. Additionally, we may seek to raise additional capital whenever conditions in the financial markets are favorable, even if we do not have an immediate need for additional cash at that time. There can be no assurance that we will be able to obtain additional funds on desirable terms or at all.

RISK FACTORS

We have a history of operating losses and may never generate sufficient revenue to achieve profitability.

We have a history of recurring operating losses. Our accumulated deficit through September 30, 2005 was $84.7 million, of which $222,000 and $1.5 million represented the net loss applicable to common shareholders for the three months ended September 30, 2005 and 2004, respectively, and $310,000 and $1.9 million represented the net loss applicable to common shareholders for the nine months ended September 30, 2005 and 2004, respectively. To date, our revenues have been generated principally from sales of Acthar, Nascobal, Ethamolin, Glofil-125, Inulin and VSL#3. In October 2005, we sold Nascobal, Ethamolin and Glofil-125, and accordingly we will no longer be selling such products. The promotion agreement for VSL#3 expired in January 2005, and we will no longer be selling VSL#3. We discontinued selling Inulin in September 2003. We do not expect Emitasol, Hypnostat or Panistat to be commercially available for a number of years, if at all.

Our ability to achieve a consistent, profitable level of operations will be dependent in large part upon our ability to:

- develop, finance and implement an effective promotional strategy for Acthar,
- finance and acquire additional marketed products,
- finance operations until consistent positive cash flows are achieved,
- transfer the Acthar potency bioassay,
- continue to receive product from our sole-source contract manufacturer on a timely basis and at acceptable costs,
- continue to control our operating expenses, and
- ensure customers' compliance with our sales and product return policies.

If we are unable to generate sufficient revenues from sales of Acthar, or if we are unable to contain costs and expenses, we may not achieve profitability and may ultimately be unable to fund our operations.

If our revenues from product sales decline or fail to grow, we may not have sufficient revenues to fund our operations.

We currently rely exclusively on sales of Acthar. We expect to continue to rely on sales of this product in the foreseeable future. We review external data sources to estimate customer demand for Acthar. In the event that demand for Acthar is less than our sales to wholesalers, excess inventory may result at the wholesaler level, which may impact future product sales. If the supply of Acthar available at the wholesale level exceeds the future demand, our future revenues from the sales of Acthar may be affected adversely.

We monitor the amount of Acthar at the wholesale level as well as prescription data obtained from third party sources to help assess product demand. Although our goal is to actively promote Acthar, and we have no reason to believe that our promotion of Acthar will not be successful, we cannot predict whether the demand for Acthar will continue in the future or that we will continue to generate significant revenues from sales of Acthar. We may choose, in the future, to reallocate our sales and promotion efforts for Acthar which may result in a decrease in revenues from this product. If the demand for Acthar declines, or if we are forced to reduce the price, or if returns of expired products are higher than anticipated, or if we are forced to re-negotiate contracts or terms, or if our customers do not comply with our existing policies, our revenues from the sale of Acthar would decline. If the cost to produce Acthar increases, and we are unable to raise the price correspondingly, our gross margins on the sale of Acthar would decline. If our revenues from the sale of Acthar decline or fail to grow, our total revenues, gross margins and operating results would be harmed and we may not have sufficient revenues to fund our operations.

Our business will be harmed if we are unable to implement our growth strategy successfully.

Our growth strategy primarily includes the following components:

- Initially focusing our promotional efforts on Acthar, our neurological product,
- Acquiring additional pharmaceutical products that have sales growth potential, are promotionally responsive to a focused and targeted sales and marketing effort, complement our therapeutic focus on neurology and can be acquired at a reasonable valuation relative to our cost of capital, and
- Developing new medications focused on our target markets through corporate collaborations.

Any failure on our part to implement any or all of our growth strategies successfully would likely have a material adverse effect on our financial condition.

If we are unsuccessful in completing the Acthar potency bioassay transfer, we may be unable to meet the demand for Acthar and lose potential revenues.

Any delays or problems associated with the transfer of the Acthar potency bioassay to a new contract laboratory could reduce the amount of the product that will be available for sale and adversely affect our operating results. We have selected a new contract laboratory to perform three bioassays associated with the release of API and finished goods. Two of these bioassays have been successfully transferred to the contract laboratory. We have experienced delays and cost overruns in the validation of the third assay, potency. ZLB has agreed to support Questcor through 2006 by continuing to conduct the potency testing and assist us on the potency assay transfer. Work on this assay transfer restarted in mid-2005. There can be no assurances that we will be successful in transferring this assay. If this laboratory is unable to validate this specific assay, we may be forced to find a new contractor to complete this work, which in turn could increase our costs substantially. If we are unable to validate the potency assay and receive FDA approval before the end of 2006, we will not be able to release API and finished goods and therefore we may not be able to meet the expected demand for Acthar.

We have little or no control over our wholesalers' buying patterns, which may impact future revenues, exchanges and excess inventory.

We sell our products primarily through major drug wholesalers located in the United States. Consistent with the pharmaceutical industry, most of our revenues are derived from the three largest drug wholesalers. These wholesalers represented over 81% of our gross product sales for fiscal year 2004. While we attempt to estimate inventory levels of our products at the three largest wholesalers using inventory data obtained from them, historical prescription information and historical purchase patterns, this process is inherently imprecise. We rely solely upon the wholesalers to effect the distribution allocation of our products. There can be no assurance that these wholesalers will adequately manage their local and regional inventories to avoid outages or inventory build-ups. On occasion we note that the wholesalers buy quantities of product in excess of the quantities being sold by them, resulting in increasing inventories.

Acthar has an expiration date that is 18 months from date of manufacture. We will generally accept for exchange or credit pharmaceutical products returned within the six month period following the expiration date. We establish reserves for these exchanges or credit memoranda at the time of sale. There can be no assurance that we will be able to accurately forecast the reserve requirements needed to provide for exchanges or credit memoranda issued in the future. Although our estimates are reviewed quarterly for

reasonableness, our product return activity could differ significantly from our estimates because our analysis of product shipments, prescription trends and the amount of product in the distribution channel may not be accurate. Judgment is required in estimating these reserves. Actual amounts could be significantly different from the estimates and such differences are accounted for in the period in which they become known.

We do not control or significantly influence the purchasing patterns of the drug wholesalers who purchase our products. These are sophisticated companies that purchase our products in a manner consistent with their industry practices and perceived business interests. Our sales are subject to the purchase requirements of the major wholesalers, which, presumably, are based upon their projected demand levels. Purchases by any customer, during any period, may be above or below actual prescription volumes of one or more of our products during the same period, resulting in increases or decreases in product inventory existing in the distribution channel.

We provide reserves for potentially excess, dated or otherwise impaired inventory. Reserves for excess finished goods and work-in-process inventories are based on an analysis of expected future sales that will occur before the inventory on hand expires. Reserves for raw material inventories are based on viability and projected future use. Judgment is required in estimating reserves for excess or impaired inventories. Actual amounts of required reserves could be different from the estimates and such differences are accounted for in the period in which they become known.

Our inability to secure additional funding could lead to a loss of your investment.

We anticipate that our capital resources based on our internal forecasts and projections will be adequate to fund operations and capital expenditures through at least September 30, 2006. If we experience unanticipated cash requirements and if revenues are less than we expect, we could be required to raise additional capital. Regardless, we may seek additional funds before the end of 2006, through public or private equity financing or from other sources. Additionally, we may seek to raise capital whenever conditions in the financial markets are favorable, even if we do not have an immediate need for additional cash at that time. There can be no assurance that additional funds can be obtained on desirable terms or at all.

If revenues from product sales are less than we expect or if further capital resources are not available, or if such resources cannot be obtained on attractive terms to us, this may further limit our ability to fund operations. Our future capital requirements will depend on many factors, including the following:

- existing product sales performance,
- successfully implementing our growth strategy,
- achieving better operating efficiencies,
- maintaining customer compliance with our policies,
- obtaining product from our sole-source contract manufacturers and completing the Acthar potency bioassay, and
- acquiring or developing additional products.

We may obtain additional financing through public or private debt or equity financings. However, additional financing may not be available to us on acceptable terms, if at all. Further, additional equity financings will be dilutive to our stockholders. If sufficient capital is not available, then we may be required to reduce our operations or to delay, reduce the scope of, eliminate or divest one or more of our products or manufacturing efforts.

If we are unable to contract with third party contract manufacturers, we may be unable to meet the demand for our products and lose potential revenues.

We rely on contract manufacturers to produce our marketed product, Acthar, and will likely do the same for other products that we may develop, commercialize or acquire in the future. Contract manufacturers may not be able to meet our needs with respect to timing, cost, quantity or quality. All our manufacturers are sole-source manufacturers and no currently qualified alternative suppliers exist.

If we are unable to contract for a sufficient supply of our required products and services on acceptable terms, or if we should encounter delays or difficulties in our relationships with our manufacturers, or if the required approvals by the FDA and other regulatory authorities do not occur on a timely basis, we will lose sales. Moreover, contract manufacturers that we may use must continually adhere to current good manufacturing practices enforced by the FDA. If the facilities of these manufacturers cannot pass an inspection, we may lose FDA approval of our products. Failure to obtain products for sale for any reason may result in an inability to meet product demand and a loss of potential revenues.

If our third party distributors are unable to distribute our products or the costs to distribute our products increase substantially, we will lose potential revenues and profits.

We transferred certain product distribution functions, including warehousing, shipping and quality control studies, to third party distributors. The outsourcing of these functions is complex, and we may experience difficulties at the third party contractor level that could reduce, delay or stop shipments of our products. If we encounter such distribution problems, our products could become unavailable and we could lose revenues, or the costs to distribute these products could become higher than we anticipated.

In fiscal year 2004, 81% of our gross product sales were derived from the three largest drug wholesalers. Two of these three wholesalers mandate a distribution fee for handling our products. If other wholesalers institute similar fees, or if such fees increase in magnitude in the future, our costs to distribute products will increase, and our gross profit margins will decline.

The Company has experienced changes in key personnel which will have an uncertain impact on future operations.

On February 18, 2005, Mr. James L. Fares was named President and Chief Executive Officer, succeeding Mr. Charles J. Casamento who resigned as Chairman, President and Chief Executive Officer on August 5, 2004. On March 8, 2005, Mr. Steve Cartt was named Executive Vice President of Commercial Development. We are highly dependent on the services of our President and Chief Executive Officer, Mr. James L. Fares and our Executive Vice President of Commercial Development, Mr. Steve Cartt. If we were to lose Mr. Fares or Mr. Cartt, as employees, our business could be harmed.

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. Although some changes in staffing levels are expected during 2005, recruiting and retaining management and operational personnel to perform sales and marketing, financial operations, business development, regulatory affairs, 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.

Our products may not be accepted by the market, which may result in lower future revenues as well as a decline in our competitive positioning.

Acthar and any products that we successfully acquire or develop in the future, if approved for marketing, may never achieve market acceptance. These products, if successfully developed, will compete with drugs and therapies manufactured and marketed by major pharmaceutical and other biotechnology companies. Physicians, patients or the medical community in general may not accept and utilize the products that we may develop or that our corporate partners may develop.

The degree of market acceptance of our commercial products and any products that we successfully develop will depend on a number of factors, including:

- The establishment and demonstration of the clinical efficacy and safety of the product candidates,
- Their potential advantage over alternative treatment methods and competing products,
- Reimbursement policies of government and third party payers, and
- Our ability to market and promote the products effectively.

The failure of our products to achieve market acceptance may result in lower future revenues as well as a decline in our competitive positioning.

A large percentage of our voting stock is beneficially owned by a small number of stockholders, who in the future could attempt to take control of our management and operations or exercise voting power to advance their own best interests and not necessarily those of other stockholders.

As of September 30, 2005, Sigma-Tau Finanziaria SpA and its affiliates ("Sigma-Tau") beneficially own, directly or indirectly, approximately 22% of the voting power of our outstanding voting capital stock, and they beneficially own approximately 26% of our outstanding common stock. Additionally, we have several other stockholders who own significant amounts of our voting capital stock, as reported on various Schedule 13D's filed with the Securities and Exchange Commission. Accordingly, these stockholders, acting individually or together, could control the outcome of certain shareholder votes, including votes concerning the election of directors, the adoption or amendment of provisions in our Articles of Incorporation, and the approval of mergers and other significant corporate transactions. This level of concentrated ownership may, at a minimum, have the effect of delaying or preventing a change in the management or voting control of us by a third party. It may also place us in the position of having these large stockholders take control of us and having new management inserted and new objectives adopted.

If competitors develop and market products that are more effective than ours, our commercial opportunity will be reduced or eliminated.

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 that we target. For example, there are products on the market that compete with Acthar. Moreover, technology controlled by third parties that may be advantageous to our business may be acquired or licensed by competitors of ours, preventing us from obtaining this technology on favorable terms, or at all.

Our ability to compete will depend on our ability to create and maintain scientifically advanced technology, and to develop, acquire and commercialize pharmaceutical products based on this technology, as well as our ability to attract and retain qualified personnel, obtain patent protection, or otherwise develop proprietary technology or processes, and secure sufficient capital resources for the expected substantial time period between technological conception and commercial sales of products based upon our technology.

Many of the companies developing competing technologies and 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.

Academic institutions, government agencies and other public and private research organizations may also seek patent protection and establish collaborative arrangements for clinical development, manufacturing, and marketing of products similar to ours. These companies and institutions will compete with us in recruiting and retaining qualified sales and marketing and management personnel, as well as in acquiring technologies complementary to our programs. We will face competition with respect to:

- product efficacy and safety,
- the timing and scope of regulatory approvals,
- availability of resources,
- price, and
- patent position, including potentially dominant patent positions of others.

If our competitors succeed in developing technologies and drugs that are more effective or less costly than any that we develop or acquire, our technology and future drugs may be rendered obsolete and noncompetitive. In addition, our competitors may succeed in obtaining the approval of the FDA or other regulatory approvals for drug candidates more rapidly than we will. Companies that complete clinical trials, obtain required regulatory agency approvals and commence commercial sale of their drugs before their competitors may achieve a significant competitive advantage, including patent and FDA marketing exclusivity rights that would delay

our ability to market specific products. We do not know if drugs resulting from the joint efforts of our existing or future collaborative partners will be able to compete successfully with our competitors' existing products or products under development or whether we will obtain regulatory approval in the U.S. or elsewhere.

If we fail to maintain or enter into new contracts related to collaborations and in-licensed or acquired technology and products, our product development and commercialization could be delayed.

Our business model has been dependent on our ability to enter into licensing and acquisition arrangements with commercial or academic entities to obtain technology for commercialization or marketed products. If we are unable to enter into any new agreements in the future, our development and commercialization efforts will be delayed. Disputes may arise regarding the inventorship and corresponding rights in inventions and know-how resulting from the joint creation or use of intellectual property by us and our licensors or scientific collaborators. We may not be able to negotiate additional license and acquisition agreements in the future on acceptable terms, if at all. In addition, current license and acquisition agreements may be terminated, and we may not be able to maintain the exclusivity of our exclusive licenses.

If collaborators do not commit sufficient development resources, technology, regulatory expertise, manufacturing, marketing and other resources towards developing, promoting and commercializing products incorporating our discoveries, the progress of our licensed products development will be stalled. Further, competitive conflicts may arise among these third parties that could prevent them from working cooperatively with us. The amount and timing of resources devoted to these activities by the parties could depend on the achievement of milestones by us and otherwise generally may be controlled by other parties. In addition, we expect that our agreements with future collaborators will likely permit the collaborators to terminate their agreements upon written notice to us. This type of termination would substantially reduce the likelihood that the applicable research program or any lead candidate or candidates would be developed into a drug candidate, would obtain regulatory approvals and would be manufactured and successfully commercialized.

If none of our collaborations are successful in developing and commercializing products, or if we do not receive milestone payments or generate revenues from royalties sufficient to offset our significant investment in product development and other costs, then our business could be harmed. Disagreements with our collaborators could lead to delays or interruptions in, or termination of, development and commercialization of certain potential products or could require or result in litigation or arbitration, which could be time-consuming and expensive and may result in lost revenues and substantial legal costs which could negatively impact our results from operations. In addition, if we are unable to acquire new marketed products on a timely basis at an appropriate purchase price and terms, we may not reach profitability and may not generate sufficient cash to fund operations.

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

Our success will depend in part on our ability to:

- obtain patents for our products and technologies,
- protect 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 will attempt to protect our proprietary position by filing U.S. and foreign patent applications related to our proprietary products, technology, inventions and improvements that are important to the development of our business.

The patent positions of biotechnology and biopharmaceutical companies involve complex legal and factual questions and, therefore, enforceability cannot be predicted with certainty. Patents, if issued, may be challenged, invalidated or circumvented. Thus, any patents that we own or license from third parties may not provide any protection against competitors. Pending patent applications we may file in the future, or those we may license from third parties, may not result in patents being issued. Also, patent rights may not provide us with proprietary protection or competitive advantages against competitors with similar technology. Furthermore, others

may independently develop similar technologies or duplicate any technology that we have developed or we will develop. The laws of some foreign countries may not protect our intellectual property rights to the same extent as do the laws of the United States.

In addition to patents, we rely on trade secrets and proprietary know-how. 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. Should our products or technologies be found to infringe on patents issued to third parties, the manufacture, use and sale of our products could be enjoined, and we could be required to pay substantial damages. In addition, we, in connection with the development and use of our products and 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 at all.

Since we must obtain regulatory approval to market our products in the United States and in foreign jurisdictions, we cannot predict whether or when we will be permitted to commercialize our products.

Any products that we develop are subject to regulation by federal, state and local governmental authorities in the United States, including the FDA, and by similar agencies in other countries. Any product that we develop must receive all relevant regulatory approvals or clearances before it may be marketed in a particular country. The regulatory process, which includes extensive preclinical studies and clinical trials of each product to establish its safety and efficacy, is uncertain, can take many years, and requires the expenditure of substantial resources. Data obtained from preclinical and clinical activities are susceptible to varying interpretations that could delay, limit or prevent regulatory approval or clearance. In addition, delays or rejections may be encountered based upon changes in regulatory policy during the period of product development and the period of review of any application for regulatory approval or clearance for a product. Delays in obtaining regulatory approvals or clearances could:

- stall the marketing, selling and distribution of any products that our corporate partners or we develop,
- impose significant additional costs on our corporate partners and us,
- diminish any competitive advantages that we or our corporate partners may attain, and
- decrease our ability to receive royalties and generate revenues and profits.

Regulatory approval, if granted, may entail limitations on the indicated uses for which a new product may be marketed that could limit the potential market for the product. Product approvals, once granted, may be withdrawn if problems occur after initial marketing. Furthermore, manufacturers of approved products are subject to pervasive review, including compliance with detailed regulations governing FDA good manufacturing practices. The FDA periodically revises the good manufacturing practices regulations. Failure to comply with applicable regulatory requirements can result in warning letters, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, refusal of the government to grant marketing applications and criminal prosecution.

In addition, we cannot predict the extent of government regulations or the impact of new governmental regulations that may result in a delay in the development, production and marketing of our products. As such, we may be required to incur significant costs to comply with current or future laws or regulations.

Our ability to generate revenues is affected by the availability of reimbursement on our products, and our ability to generate revenues will be diminished if we fail to obtain an adequate level of reimbursement for our products from third party payors.

In both domestic and foreign markets, sales of our products will depend in part on the availability of reimbursement from third party payors such as state and federal governments (for example, under Medicare and Medicaid programs in the United States) and private insurance plans. In certain foreign markets, the pricing and profitability of our products generally are subject to government controls. 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 state or federal governments will pay to reimburse the cost of drugs. 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 our products, which may also impact product sales. Further, when a new therapeutic is approved, the reimbursement status and rate of such a product is uncertain. In addition, current reimbursement policies for existing products may change at any time. Changes in reimbursement or our failure to obtain reimbursement for our products may reduce the demand for, or the price of, our products, which could result in lower product sales or revenues, thereby weakening our competitive position and negatively impacting our results of operations.

In the United States, proposals have called for substantial changes in the Medicare and Medicaid programs. Any such changes enacted may require significant reductions from currently projected government expenditures for these programs. The Medicare Prescription Drug Improvement Act, enacted in December 2003, provides for, among other things, an immediate reduction in the Medicare reimbursement rates for many drugs administered in a physician's office. The Medicare Act, as well as other changes in government legislation or regulation or in private third party payors' policies toward reimbursement for our products, may reduce or eliminate reimbursement of our products' costs. Driven by budget concerns, Medicaid managed care systems have been implemented in several states and local metropolitan areas. If the Medicare and Medicaid programs implement changes that restrict the access of a significant population of patients to innovative medicines, the market acceptance of these products may be reduced. We are unable to predict what impact the Medicare Act or other future legislation, if any, relating to third party reimbursement, will have on our product sales.

To facilitate the availability of our products for Medicaid patients, we have contracted with the Center for Medicare and Medicaid Services. As a result, we pay quarterly rebates consistent with the utilization of our products by individual states. We also give discounts under contract on purchases or reimbursements of pharmaceutical products by certain other federal and state agencies and programs. If these discounts and rebates become burdensome to us and we are not able to sell our products through these channels, our net sales could decline.

Our business is subject to changing regulation of corporate governance and public disclosure that has increased both our costs and the risk of noncompliance.

Because our common stock is publicly traded, we are subject to certain rules and regulations of federal, state and financial market exchange entities charged with the protection of investors and the oversight of companies whose securities are publicly traded. These entities, including the Public Company Accounting Oversight Board, the SEC and the American Stock Exchange, have recently issued new requirements and regulations and continue developing additional regulations and requirements in response to recent corporate scandals and laws enacted by Congress, most notably the Sarbanes-Oxley Act of 2002. Our efforts to comply with these new regulations have resulted in, and are likely to continue resulting in, increased general and administrative expenses and diversion of management time and attention from revenue-generating activities to compliance activities.

In particular, our efforts to prepare to comply with Section 404 of the Sarbanes-Oxley Act and related regulations for fiscal years ending on or after July 15, 2007 regarding our management's required assessment of our internal control over financial reporting and our independent auditors' attestation of that assessment will require the commitment of significant financial and managerial resources. Although management believes that ongoing efforts to assess our internal control over financial reporting will enable management to provide the required report, and our independent auditors to provide the required attestation, under Section 404, we can give no assurance that such efforts will be completed on a timely and successful basis to enable our management and independent auditors to provide the required report and attestation in order to comply with SEC rules effective for us.

Moreover, because the new and changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices.

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

The price of our common stock, like that of other specialty pharmaceutical companies, is subject to significant volatility. Our stock price has ranged in value from $0.38 to $1.09 over the last two years. Any number of events, both internal and external to us, may continue to affect our stock price. These include, without limitation, the quarterly and yearly revenues and earnings or losses; our ability to acquire and market appropriate pharmaceuticals; announcement by us or our competitors regarding product development efforts, including the status of regulatory approval applications; the outcome of legal proceedings, including claims filed by us against third parties to enforce our patents and claims filed by third parties against us relating to patents held by the third parties; the launch of

competing products; our ability to obtain product from our contract manufacturers; the resolution of (or failure to resolve) disputes with collaboration partners and corporate restructuring by 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 our products.

Our business will expose us to potential liability risks that are inherent in the testing, manufacturing and marketing of pharmaceutical products. The use of any drug candidates ultimately developed by us or our collaborators in clinical trials may expose us to product liability claims and possible adverse publicity. These risks will expand for any of our drug candidates that receive regulatory approval for commercial sale and for those products we currently market. Product liability insurance for the pharmaceutical industry is generally expensive, if available at all. We currently have product liability insurance for claims up to $10,000,000. However, if we are unable to maintain insurance coverage at acceptable costs, in a sufficient amount, or at all, or if we become subject to a product liability claim, our reputation, stock price and ability to devote the necessary resources to the commercialization of our products could be negatively impacted.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk at September 30, 2005 has not changed materially from December 31, 2004, and reference is made to the more detailed disclosures of market risk included in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable

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

Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS

Exhibit No.	Description
31	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certifications pursuant to Section 906 of the Public Company Accounting Reform and Investor Act of 2002.

* These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of Questcor Pharmaceuticals, Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

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

QUESTCOR PHARMACEUTICALS, INC.

Date: November 14, 2005

By: /s/ JAMES L. FARES
James L. Fares
President and Chief Executive Officer

By: /s/ GEORGE STUART
George Stuart
Chief Financial Officer

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Exhibit Index

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EXHIBIT 31

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, James L. Fares, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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

c) 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) 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: November 14, 2005

/s/ JAMES L. FARES
James L. Fares
Chief Executive Officer

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, George Stuart, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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

c) 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) 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: November 14, 2005

/s/ GEORGE STUART
George Stuart
Chief Financial Officer

EXHIBIT 32

CERTIFICATIONS

On November 14, 2005, Questcor Pharmaceuticals, Inc. filed its Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 (the "Form 10-Q") with the Securities and Exchange Commission. Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the following certifications are being made to accompany the Form 10-Q:

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Questcor Pharmaceuticals, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2005 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 14, 2005

/s/ JAMES L. FARES
James L. Fares
Chief Executive Officer

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Questcor Pharmaceuticals, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2005 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 14, 2005

/s/ GEORGE STUART
George Stuart
Chief Financial Officer

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.