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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014

OR

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

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

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

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

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

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

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

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

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

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

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

As of June 30, 2014 there were 61,448,937 shares of the Registrant’s common stock, no par value per share, outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 331,679	$ 175,840
Short-term investments	61,074	69,166
Total cash, cash equivalents and short-term investments	392,753	245,006
Accounts receivable, net of allowances for doubtful accounts of $408 and $475 at June 30, 2014 and December 31, 2013, respectively	106,954	87,069
Inventories, net of allowances of $1,441 and $1,329 at June 30, 2014 and December 31, 2013, respectively	16,382	16,368
Restricted cash - current portion	50,000	25,000
Prepaid income taxes	9,970	—
Prepaid expenses and other current assets	7,668	7,124
Deferred tax assets	11,512	16,209
Total current assets	595,239	396,776
Property and equipment, net	36,409	31,733
Goodwill	20,527	20,464
In process R&D asset	186,530	191,451
Intangibles and other non current assets, net	28,589	30,131
Restricted cash	25,000	50,000
Deposits and other assets	134	389
Deferred tax assets	15,410	15,410
Total assets	$ 907,838	$ 736,354
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 37,264	$ 14,302
Accrued compensation	23,019	16,489
Sales-related reserves	26,913	35,370
Accrued royalties	46,398	35,163
Dividend payable	18,426	18,093
Current portion of contingent consideration associated with the acquisition of BioVectra	4,124	4,238
Current portion of non-contingent liability associated with the acquisition of Synacthen and Synacthen Depot	23,810	24,398
Income taxes payable	2,219	3,693
Current portion of long-term debt	1,701	1,665
Other accrued liabilities	3,860	7,159
Total current liabilities	187,734	160,570
Long-term debt, less current portion	13,181	13,998
Contingent consideration associated with acquisition of BioVectra	30,642	33,224
Non-contingent liability associated with the acquisition of Synacthen and Synacthen Depot	22,675	45,378
In process R&D liability	72,011	70,290
Non current deferred tax liability	10,602	10,569

Other non current liabilities	2,853	2,961
Total liabilities	339,698	336,990
Shareholders' equity:		
Preferred stock, no par value, 5,334,285 shares authorized; none outstanding	—	—
Common stock, no par value, 105,000,000 shares authorized, 61,448,937 and 60,137,758 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	64,927	30,386
Retained earnings	506,187	372,231
Accumulated other comprehensive (loss) income	(2,974)	(3,253)
Total shareholders' equity	568,140	399,364
Total liabilities and shareholders' equity	$ 907,838	$ 736,354

See accompanying notes.

QUESTCOR PHARMACEUTICALS, INC.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue				
Pharmaceutical net sales	$ 261,412	$ 177,045	$ 471,180	$ 303,817
Contract manufacturing net sales	17,418	7,528	$ 34,754	$ 15,885
Total net sales	278,830	184,573	$ 505,934	$ 319,702
Cost of sales	23,152	17,221	44,562	33,410
Gross profit	255,678	167,352	461,372	286,292
Operating expenses:				
Selling and marketing	56,792	37,900	103,859	73,362
General and administrative	26,848	13,126	49,475	25,675
Research and development	22,008	12,240	41,937	23,033
Depreciation and amortization	1,065	1,014	2,092	2,084
Change in fair value of contingent consideration	1,201	—	2,382	—
Impairment of goodwill and intangibles	—	—	—	719
Total operating expenses	107,914	64,280	199,745	124,873
Income from operations	147,764	103,072	261,627	161,419
Interest and other income (expense), net	(226)	20	(1,018)	(322)
Foreign currency transaction gain (loss)	60	—	(94)	(488)
Income before income taxes	147,598	103,092	260,515	160,609
Income tax expense	51,162	33,969	89,769	52,424
Net income	$ 96,436	$ 69,123	$ 170,746	$ 108,185
Change in unrealized gains or losses on available-for-sale securities, net of related tax effects	31	(29)	37	(34)
Change in foreign currency translation adjustments	1,479	(1,451)	242	(2,640)
Comprehensive income	$ 97,946	$ 67,643	$ 171,025	$ 105,511
Net income per share:				
Basic	$ 1.62	$ 1.17	$ 2.87	$ 1.86
Diluted	$ 1.54	$ 1.12	$ 2.75	$ 1.79
Shares used in computing net income per share:				
Basic	59,686	58,938	59,415	58,075
Diluted	62,451	61,498	62,172	60,581
Dividends declared per share of common stock	$ 0.30	$ 0.25	$ 0.60	$ 0.50

See accompanying notes.

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

	Six Months Ended June 30,	
	2014	**2013**
OPERATING ACTIVITIES		
Net income	$ 170,746	$ 108,185
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation expense	17,469	12,679
Deferred income taxes	4,699	962
Amortization of investments	521	245
Depreciation and amortization	9,757	4,645
Impairment of goodwill and intangibles	—	719
Loss on disposal of property and equipment	—	95
Imputed interest for contingent consideration and in-process R&D	2,382	588
Other compensation expense	1,059	494
Changes in operating assets and liabilities, net of business acquisition:		
Accounts receivable	(17,887)	(2,883)
Inventories	20	4,270
Prepaid income taxes	(9,970)	—
Prepaid expenses and other current assets	225	1,175
Accounts payable	20,306	(2,569)
Accrued compensation	6,530	(10,780)
Sales-related reserves	(8,457)	(1,786)
Accrued royalties	11,235	7,060
Income taxes payable	(1,535)	(2,684)
Other accrued liabilities	(1,714)	2,555
Other non-current liabilities	45	21
Net cash flows provided by operating activities	205,431	122,991
INVESTING ACTIVITIES		
Purchase of property and equipment	(8,266)	(1,138)
Purchase of short-term investments	(33,570)	(52,001)
Proceeds from maturities of short-term investments	41,178	116,206
Acquisition of BioVectra, net of cash acquired	—	(46,692)
Contingent consideration payment related to BioVectra acquisition	(4,581)	—
Restricted cash associated with the acquisition of Synacthen	—	(75,000)
Acquisition of Synacthen	—	(60,000)
Annual cash payment for Synacthen	(25,000)	—
Proceeds from sale of Doral	—	700
Deposits and other assets	766	—
Net cash flows used in investing activities	(29,473)	(117,925)
FINANCING ACTIVITIES		
Repayment of funded long-term debt	(591)	(613)
Repayment of other long-term debt	(232)	(212)
Income tax benefit realized from share-based compensation plans	17,699	5,173
Issuance of common stock, net	1,519	6,943
Repurchase of common stock	(2,146)	—
Dividends paid	(36,457)	(14,887)

Net cash flows used in financing activities	(20,208)	(3,596)
Effect of cash on changes in exchange rates	89	(313)
Increase in cash and cash equivalents	155,839	1,157
Cash and cash equivalents at beginning of period	175,840	80,608
Cash and cash equivalents at end of period	$ 331,679	$ 81,765
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 294	$ 380
Cash paid for income taxes	$ 78,884	$ 49,234
Supplemental Disclosures of Investing and Financing Activities:		
Dividend payable	$ 18,426	$ 15,000
In conjunction with the acquisition of BioVectra at January 18, 2013:		
Incremental fair value of assets acquired, net		$ 80,698
Less: fair value of contingent consideration		(30,383)
		50,315
Loss on foreign exchange rate		488
Total cash paid for acquisition of BioVectra		$ 50,803

See accompanying notes.

QUESTCOR PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except per share data)	Common Stock		Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Total Shareholders' Equity
	Shares	Amount			
Balances at December 31, 2013	60,137,758	$ 30,386	$ 372,231	$ (3,253)	$ 399,364
Stock compensation for equity incentives and restricted common stock granted to employees	576,178	17,469			17,469
Issuance of common stock pursuant to employee stock purchase plan	46,866	2,424			2,424
Dividends declared on shares of common stock			(36,790)		(36,790)
Issuance of common stock upon exercise of stock options	872,954	11,716			11,716
Repurchase of common stock	(23,552)	(2,146)	—	—	(2,146)
Cancellation of shares related to tax liability	(161,267)	(12,621)			(12,621)
Income tax benefit realized from share-based compensation plans		17,699			17,699
Comprehensive income (loss):					
Net unrealized gain on investments				37	37
Foreign currency translation adjustments				242	242
Net income			170,746		170,746
Balances at June 30, 2014	61,448,937	$ 64,927	$ 506,187	$ (2,974)	$ 568,140

See accompanying notes.

QUESTCOR PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. The Company

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

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

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

For financial information relating to our reporting segments, see Note 2.

Questcor Pharmaceutical Segment

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

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

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

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

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

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

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

assistance program. We do not generate any revenue or net sales from the vials provided through our sponsored patient assistance programs.

Healthcare provider understanding of Acthar is facilitated by our experienced team of sales representatives and managers.

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

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

Acquisition of Synacthen and Synacthen Depot

On June 11, 2013, the Effective Date, we acquired from Novartis AG and Novartis Pharma AG, collectively Novartis, a license to develop, market, manufacture, distribute, sell and commercialize Synacthen and Synacthen Depot for all uses in humans in the United States. Subject to certain conditions and limitations in the License Agreement, the license is exclusive, perpetual and irrevocable. Synacthen is a short-acting diagnostic product used to test adrenal gland function. Synacthen Depot is a synthetic melanocortin agonist approved in various countries outside of the United States for certain autoimmune and inflammatory conditions. Since our acquisition of Synacthen and Synacthen Depot, we have implemented a new research and development program for Synacthen Depot and intend to seek FDA approval. Prior to our acquisition, Synacthen Depot had never been developed for approval for patients in the United States.

On June 20, 2014, we also acquired from Novartis a license and certain assets to develop, market, manufacture, distribute, sell and commercialize Synacthen and Synacthen Depot in certain countries outside the U.S. for all uses in humans. Subject to certain conditions and limitations, these rights and assets are exclusive, perpetual and irrevocable.

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

BioVectra Segment

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

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

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

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

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

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

Merger with Mallinckrodt plc

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

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

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

The proposed Merger has been unanimously approved by the boards of directors of Questcor and Mallinckrodt, and is supported by the management teams of both companies. On April 18, 2014, each of Mallinckrodt and Questcor filed a Pre-Merger Notification and Report Form pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the

"HSR Act") with the Antitrust Division and the Federal Trade Commission ("FTC"), and on May 9, 2014, the FTC granted early termination of the waiting period under the HSR Act with respect to the Merger. The registration statement on Form S-4 filed with the SEC by Mallinckrodt on May 16, 2014 and amended on July 11, 2014 was declared effective on July 11, 2014.

We currently expect the Merger to close in August 2014, subject to the satisfaction of customary closing conditions, including the approval of the shareholders of both companies.

Other than transaction related expenses recorded during the three and six months ended June 30, 2014, the pending Merger has had no effect on the condensed consolidated financial statements except for the related footnote disclosures herein.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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

Use of Estimates

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

Reclassifications

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

Revenue Recognition

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

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

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

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

International sales of our products are immaterial.

Net Sales

We record net sales after establishing reserves for the following:

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

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

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

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

Total Sales-related Reserves

At June 30, 2014 and December 31, 2013, sales-related reserves included in the accompanying condensed consolidated balance sheets were as follows (in thousands):

	June 30, 2014	December 31, 2013
Medicaid rebates	$ 22,961	$ 30,981
Other rebates, chargebacks and discounts	3,952	4,389
Total	$ 26,913	$ 35,370

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

	2014	2013
Balance at January 1	$ 30,981	$ 33,921
Actual Medicaid payments for sales made in prior year	(19,071)	(21,463)
Actual Medicaid payments for sales made in current year	(6,799)	(6,923)
Current Medicaid provision for sales made in prior year	(4,545)	11,497
Current Medicaid provision for sales made in current year	22,395	13,510
Balance at June 30	$ 22,961	$ 30,542

Product Exchanges and Returns

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

For our contract manufactured finished goods sold through our BioVectra subsidiary, we warrant that our products conform to the applicable product specifications. Each product is shipped with a Certificate of Analysis stating the conditions

and results of product performance tests. Our customers must determine the suitability of our product. We do not accept liability for any incidental, direct or indirect consequential or contingent damages arising out of the use, result of use, or the inability to use our products. Should any of our products fail to meet its described specifications for reasons other than misuse or mishandling, at our option, we will either replace the product free of charge or refund the purchase price. We reserve the right to deny a return when the date of the invoice is greater than 30 days from the return request date, or for any other reason as covered by our warranty.

Concentration of Credit Risk

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

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. We have never experienced any losses related to these balances. All of our non-interest bearing cash balances are insured up to $250,000 per depositor at each financial institution.

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

Inventories

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

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

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

	June 30, 2014	December 31, 2013
Raw material	$ 10,145	$ 9,835
Work-in-process	3,565	2,194
Intermediates	1,620	1,572
Finished goods	2,493	4,096
	17,823	17,697
Less: Reserve for obsolescence	(1,441)	(1,329)
	$ 16,382	$ 16,368

Included in inventories at June 30, 2014 is $8.8 million held at BioVectra, in Canada.

Property, Plant and Equipment

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

	June 30, 2014	December 31, 2013
Equipment (including manufacturing, laboratory and office)	$ 32,816	$ 26,237
Building	13,000	12,015
Land and land improvements	502	406
Leasehold improvements	1,523	1,446
	47,841	40,104
Less accumulated depreciation and amortization	(11,432)	(8,371)
	$ 36,409	$ 31,733

Total depreciation and amortization expense amounted to $3.2 million and $2.8 million for the six months ended June 30, 2014 and 2013, respectively. The increase in depreciation and amortization expense was due to an increase in the value of assets held and acquired. We depreciate our property and equipment and amortize our leasehold improvements using the straight-line method of depreciation. Included in property, plant and equipment at June 30, 2014 is $32.9 million held at BioVectra, in Canada.

Supply Concentration Risks

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

Cash Equivalents and Short-Term Investments

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

We carry available-for-sale securities at fair value, with the unrealized gains and losses, if any, reported in the Condensed consolidated statements of income and comprehensive income. If we deem the decline in value to be other-than-temporary and we intend to sell such securities before their full cost can be recovered, we write down such securities to fair value and we charge the loss to net realized losses on investments. We use significant judgment in the determination of when an other-than-temporary decline in value has occurred. We evaluate our investment securities for other-than-temporary declines based on quantitative and qualitative factors. As of June 30, 2014, none of our investments had an other-than-temporary decline in

valuation, and no other-than-temporary losses were recognized during the three and six months ended June 30, 2014 and 2013, respectively. We base the cost of securities sold on the specific identification method. We include realized gains and losses, if any, in the accompanying condensed consolidated statements of income and comprehensive income, in Interest and other income, net.

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

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Estimated Fair Value
June 30, 2014				
Cash and cash equivalents	$ 21,566	$ —	$ —	$ 21,566
Short-term investments:				
Corporate bonds	32,861	18	(2)	32,877
Government-sponsored enterprises	12,019	10	(1)	12,028
Municipal bonds	16,158	12	(1)	16,169
	$ 61,038	$ 40	$ (4)	$ 61,074
December 31, 2013				
Cash and cash equivalents	$ 13,351	$ —	$ —	$ 13,351
Short-term investments:				
Corporate bonds	45,190	11	(14)	45,187
Government-sponsored enterprises	14,539	3	(4)	14,538
Municipal bonds	9,438	4	(1)	9,441
	$ 69,167	$ 18	$ (19)	$ 69,166

The amortized cost and fair value of short-term investment securities at June 30, 2014, by contractual maturity, are as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 22,410	$ 22,414
Due after one through two years	38,628	38,660
Total short-term investments	$ 61,038	$ 61,074

As of June 30, 2014, the average contractual maturity of our short-term investments was approximately 15 months.

As of June 30, 2014, we had the following available-for-sale securities that were in an unrealized loss position but were not deemed to be other-than-temporarily impaired (in thousands):

	Less Than 12 Months		12 Months or Greater	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	$ (1)	$ 4,025	$ (1)	$ 2,392
Government-sponsored enterprises	—	—	(1)	1,998
Municipal bonds	—	1,391	(1)	1,314
Total	$ (1)	$ 5,416	$ (3)	$ 5,704

The gross unrealized losses reported above for June 30, 2014 were caused by general fluctuations in market interest rates from the respective purchase date of these securities through June 30, 2014. No significant facts or circumstances have occurred to indicate that these unrealized losses are related to any deterioration in the creditworthiness of the issuers of the marketable securities we own. Based on our review of these securities, including our assessment of the duration and severity of the related unrealized losses, we have not recorded any other-than-temporary impairments on these investments. For the three and six months ended June 30, 2014, we did not realize any gains or losses.

Fair Value of Financial Instruments

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

Fair Value Measurements

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

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

We have segregated all assets and liabilities measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below. As of June 30, 2014 and December 31, 2013, assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

		Basis of Fair Value Measurements			
Balance Sheet Classification		**Balance at June 30, 2014**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	Cash and cash equivalents	$ 21,566	$ 19,216	$ 2,350	$ —
Short-term investments	Corporate bonds	32,877	—	32,877	—
Short-term investments	Government-sponsored enterprises	12,028	—	12,028	—
Short-term investments	Municipal bonds	16,169	—	16,169	—
	Total assets	$ 82,640	$ 19,216	$ 63,424	$ —
Current liabilities	Current portion of contingent consideration in conjunction with acquisition of BioVectra	$ 4,124	$ —	$ —	$ 4,124
Non-current liabilities	Contingent consideration in conjunction with acquisition of BioVectra	30,642	—	—	30,642
Non-current liabilities	Contingent consideration in conjunction with acquisition of Synacthen Depot	72,011	—	—	72,011
	Total liabilities	$ 106,777	$ —	$ —	$ 106,777

Balance Sheet Classification		Balance at December 31, 2013	Basis of Fair Value Measurements: Level 1	Level 2	Level 3
Cash and cash equivalents	Cash and cash equivalents	$ 13,351	$ 5,260	$ 8,091	$ —
Short-term investments	Corporate bonds	45,187	—	45,187	—
Short-term investments	Government-sponsored enterprises	14,538	—	14,538	—
Short-term investments	Municipal bonds	9,441	—	9,441	—
	Total assets	$ 82,517	$ 5,260	$ 77,257	$ —
Current liabilities	Current portion of contingent consideration in conjunction with acquisition of BioVectra	$ 4,238	$ —	$ —	$ 4,238
Non-current liabilities	Contingent consideration in conjunction with acquisition of BioVectra	33,224	—	—	33,224
Non-current liabilities	Contingent consideration in conjunction with acquisition of Synacthen Depot	70,290	—	—	70,290
	Total liabilities	$ 107,752	$ —	$ —	$ 107,752

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

	Fair Value	Valuation Technique	Unobservable Input	Rate
Contingent consideration in conjunction with the acquisition of Bio Vectra estimate	$ 34,766	Probability weighted discounted future cash flows	Discount rate	5%
Contingent consideration in conjunction with the acquisition of Synacthen Depot estimate	$ 72,011	Probability weighted discounted future cash flows	Discount rate	5%

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

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

	June 30, 2014
Balance at beginning of period	$ 107,752
Amounts acquired or issued	(4,581)
Change due to compensation expense	1,059
Change due to time value of money	2,382
Change due to foreign currency translation adjustment	165
Changes in fair value	—
Balance at end of period	$ 106,777

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

Long-term Debt

Funded long-term debt

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

	June 30, 2014
4% Term Loan, due February 2022, payable in quarterly installments of C$450,743 including principal and interest	$ 11,519
Less: Current Portion	1,249
Funded long-term debt, less current portion	$ 10,270

Long-term debt

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

	June 30, 2014
2.85% Term Loan, due April 2016, payable in monthly installments of C$48,170 including principal and interest	$ 3,363
Less: Current Portion	452
Funded long-term debt, less current portion	$ 2,911

Share-based Compensation

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

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

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

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

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

At June 30, 2014, there was $15.2 million of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a remaining weighted average vesting period of approximately 1.9 years; and $56.3 million of total unrecognized compensation cost related to unvested restricted stock awards and restricted stock units.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Selling and marketing	$ 3,749	$ 2,570	$ 6,866	$ 5,024
General and administrative	3,462	2,685	7,297	5,223
Research and development	1,562	1,276	3,306	2,432
Total	$ 8,773	$ 6,531	$ 17,469	$ 12,679

Net Income Per Share

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

The following table presents the amounts used in computing basic and diluted net income per share applicable to common shareholders for the three and six months ended June 30, 2014 and 2013 and the effect of dilutive potential common shares on the number of shares used in computing dilutive net income per share applicable to common shareholders. Diluted potential common shares resulting from the assumed exercise of outstanding stock options and restricted stock are determined based on the treasury stock method (in thousands, except per share amounts).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income applicable to common shareholders	$ 96,436	$ 69,123	$ 170,746	$ 108,185
Shares used in computing net income per share applicable to common shareholders:				
Basic	59,686	58,938	59,415	58,075
Effect of dilutive potential common shares:				
Stock options	2,221	2,238	2,222	2,276
Restricted stock	544	322	535	230
Diluted	62,451	61,498	62,172	60,581
Net income per share applicable to common shareholders:				
Basic	$ 1.62	$ 1.17	$ 2.87	$ 1.86
Diluted	$ 1.54	$ 1.12	$ 2.75	$ 1.79

The following table presents the amounts excluded from the computation of diluted net income per share applicable to common shareholders for the three and six months ended June 30, 2014 and 2013 as the inclusion of these securities would have been anti-dilutive (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Stock options	25	2,010	63	2,004
Restricted stock awards	3	—	11	—

Basic and diluted net income per share also takes into consideration the two-class method. Under the two-class method, undistributed net income is allocated to common stock and unvested participating securities based on their respective rights to share in dividends. We have determined that restricted stock awards represent participating securities and, therefore, require the use of the two-class method for the calculation of basic and diluted earnings per share. During the three and six months ended June 30, 2014 and 2013, we issued restricted stock units to certain employees under our 2006 Equity Incentive Plan. Because the holders of the restricted stock units will only receive dividends on restricted stock units that have vested prior to us declaring dividends, we have determined that the restricted stock units are non-participating securities and will not be included in our two-class method calculation.

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net income applicable to common shareholders	$ 96,436	$ 69,123	$ 170,746	$ 108,185
Less: Dividends declared	18,426	15,000	36,773	29,887
Undistributed earnings	$ 78,010	$ 54,123	$ 133,973	$ 78,298
Common stock undistributed earnings	$ 76,009	$ 53,172	$ 130,543	$ 76,648
Unvested restricted stock award undistributed earnings	2,001	951	3,430	1,650
Total undistributed earnings	$ 78,010	$ 54,123	$ 133,973	$ 78,298

Dividend Program

Our Board of Directors has adopted a policy to pay a regular quarterly dividend in such amounts as the Board of Directors may determine from time to time. The Board of Directors declared an initial quarterly cash dividend of $0.20 per share to all shareholders of record at the close of business on October 31, 2012. In February 2013, we announced an increase in our quarterly cash dividend from $0.20 per share to $0.25 per share, and in October 2013, we announced a further increase in our quarterly cash dividend to $0.30 per share. In July 2014, we paid a quarterly cash dividend of $0.30 per share to shareholders of record on July 1, 2014. Under the terms of the Merger Agreement with Mallinckrodt, we are restricted from paying any further dividends on our common stock.

Goodwill, Intangibles and Purchased Technology

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

Goodwill and indefinite-lived intangibles are tested for impairment annually and in interim periods if certain events occur indicating the fair value may be below its carrying value using a two-step process. The first step is to identify a potential impairment, and the second step measures the amount of the impairment loss, if any. Goodwill is impaired if the carrying amount of a reporting unit’s goodwill exceeds its estimated fair value. We performed our annual goodwill and indefinite-lived impairment assessment as of December 31, 2013, noting no impairment. We continue to believe there is no impairment to our goodwill and indefinite-lived assets as of June 30, 2014.

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

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

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

	June 30, 2014	December 31, 2013
Acquired intangibles	$ 33,235	$ 33,186
Less accumulated amortization	(4,646)	(3,055)
Acquired intangibles, net	$ 28,589	$ 30,131
Goodwill	$ 20,527	$ 20,464

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

Balance at December 31, 2013	$ 20,464
Currency translation	63
Balance at June 30, 2014	$ 20,527

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

	December 31, 2013	Additions from Purchase Accounting	Currency Translation	June 30, 2014
United States	$ —	$ —	$ —	$ —
Canada	20,464	—	63	20,527
Total	$ 20,464	$ —	$ 63	$ 20,527

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

	June 30, 2014			
	Gross Book Value	Accumulated Amortization	Currency Translation	Net Book Value
Trademark	$ 8,151	$ —	$ (553)	$ 7,598
Patent	58	(30)	(4)	24
Contracted customer relationships	17,208	(2,434)	(1,133)	13,641
Non-contracted customer relationships	10,164	(2,182)	(656)	7,326
Total acquired intangibles	$ 35,581	$ (4,646)	$ (2,346)	$ 28,589

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

Balance at December 31, 2013	$ 30,131
Amortization expense	(1,591)
Currency translation	49
Balance at June 30, 2014	$ 28,589

Amortization expense for BioVectra's intangibles totaled $1.6 million and $1.5 million for the six months ended June 30, 2014 and 2013, respectively. The estimated annual amortization expense for intangible assets is approximately $1.6 million in 2014, $3.3 million in 2015, $3.1 million in 2016, $2.9 million in 2017, $2.7 million in 2018 and $7.5 million thereafter. Amortizable intangible assets are amortized over 8 to 10 years (9 years average). Customer relationships are amortized on an accelerated basis over their useful lives.

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

	June 30, 2014	December 31, 2013
In process R&D asset	$ 196,663	$ 196,663
Less accumulated amortization	(10,133)	(5,212)
In process R&D asset, net	$ 186,530	$ 191,451

Amortization expense for the intangible acquired in conjunction with the acquisition of Synacthen totaled $4.9 million and $0.3 million for the six months ended June 30, 2014 and 2013. The estimated annual amortization expense for the intangible asset is approximately $4.9 million for the remainder of 2014, $9.8 million in 2015, $9.8 million in 2016, $9.8 million in 2017, $9.8 million in 2018 and $142.3 million thereafter. The in process R&D asset will be amortized over 20 years. We believe that this is the appropriate period because of the anticipated 7-8 years of development and the anticipated 11-12 years of patent exclusivity available thereafter.

Commitments and Contingencies

BioVectra receives funding from the Atlantic Canada Opportunities Agency (“ACOA”) which is contingently repayable on a royalty basis upon sales of commercialized products resulting from 4 projects. In the event that the products are not commercialized under the program or do not continue to generate revenues, the royalty agreement will be terminated without future obligation to BioVectra. Royalties paid under this agreement in the six months ended June 30, 2014 were immaterial.

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

On June 11, 2013, the Effective Date, we acquired from Novartis a license to develop, market, manufacture, distribute, sell and commercialize Synacthen and Synacthen Depot for all uses in humans in the United States. Under the terms of the transaction agreements, we paid Novartis an upfront consideration of $60.0 million and an annual cash payment on the first anniversary of $25 million. We will also be making annual cash payments of $25 million on each of the second and third anniversaries of the Effective Date, a potential additional annual cash payment on each anniversary subsequent to the third anniversary until we obtain the first approval of the FDA related to one of the products, or the FDA Approval, and a milestone payment upon our receipt of the FDA Approval. If we successfully obtain the FDA Approval, we will pay an annual royalty to Novartis based on a percentage of the net sales of the product in the U.S. market until the maximum payment is met. The first three annual payments aggregating to $75.0 million are secured by a letter of credit and classified as restricted cash on the Condensed Consolidated Balance Sheets. In no event will the total payments related to this transaction exceed $300 million.

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

Employment Agreements

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

Indemnifications

As permitted under California law and in accordance with our Amended and Restated Bylaws, we indemnify our officers and directors for certain events or occurrences while the officer or director is or was serving at our request in such capacity. The potential future indemnification limit is to the fullest extent permissible under California law. However, we have a director and officer insurance policy that limits our exposure and may enable us to recover a portion of any future amounts paid. We believe the fair value of these indemnification agreements in excess of applicable insurance coverage is minimal. Accordingly, we have no liabilities recorded for these agreements as of June 30, 2014 and December 31, 2013.

Glenridge Litigation

In June 2011, Glenridge Pharmaceuticals LLC, or Glenridge, filed a lawsuit against us in the Superior Court of California, Santa Clara County, alleging that we had underpaid royalties to Glenridge, in connection with the timing of the impact of various offsets in the calculation of net sales. In August 2012, we filed a separate lawsuit against the three principals of Glenridge, as well as Glenridge, challenging the enforceability of our agreement with Glenridge. Our lawsuit alleges that Kenneth Greathouse breached his fiduciary duties to the Company and that his partners at Glenridge aided and abetted his breach. In the January 2013, we began to withhold royalty payments from Glenridge. In August 2013, the two lawsuits were consolidated into one case in the Superior Court of California, Santa Clara County. We filed a motion for summary adjudication seeking to declare our agreement with Glenridge unenforceable. The Court denied it on March 6, 2014, finding that triable issues of fact existed as to whether the Glenridge agreement was enforceable. Glenridge subsequently filed its own motion for summary judgment that seeks to dismiss Questcor's affirmative claims on the grounds that they are time-barred. The Court denied Glenridge's motion for summary judgment on June 4, 2014. The Court set a trial for November 3, 2014.

USAO Investigation

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

Putative Class Action Securities Litigation

On September 26, 2012, a putative class action lawsuit was filed against us and certain of our officers and directors in the United States District Court for the Central District of California, captioned *John K. Norton v. Questcor Pharmaceuticals, et al.*, No. SACv12-1623 DMG (FMOx). The complaint purports to be brought on behalf of shareholders who purchased our common stock between April 26, 2011 and September 21, 2012. The complaint generally alleges that we and certain of our officers and directors engaged in various acts to artificially inflate the price of our stock and enable insiders to profit through stock sales. The complaint asserts that we and certain of our officers and directors violated sections 10(b) and/or 20(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, by making allegedly false and/or misleading statements concerning the clinical evidence to support the use of Acthar for indications other than infantile spasms, the promotion of the sale and use of Acthar in the treatment of MS and nephrotic syndrome, reimbursement for Acthar from third-party insurers, and our outlook and potential market growth for Acthar. The complaint seeks damages in an unspecified amount and equitable relief against the defendants. This lawsuit has been consolidated with four subsequently-filed actions asserting similar claims under the caption: *In re Questcor Securities Litigation*, No. CV 12-01623 DMG (FMOx). On October 1, 2013, the District Court granted in part and denied in part our motion to dismiss the consolidated amended complaint. On October 29, 2013, we filed an answer to the consolidated amended complaint. Discovery is currently ongoing. The Court set a jury trial for December 1, 2015.

Federal Shareholder Derivative Litigation

On October 4, 2012, another alleged shareholder filed a derivative lawsuit in the United States District Court for the Central District of California captioned *Gerald Easton v. Don M. Bailey, et al.*, No. SACV12-01716 DOC (JPRx). The suit asserts claims substantially identical to those asserted in the *do Valle* derivative action described below against the same defendants. This lawsuit has been consolidated with five subsequently-filed actions asserting similar claims under the caption: *In re Questcor Shareholder Derivative Litigation*, CV 12-01716 DMG (FMOx). Following the resolution of the motion to dismiss in the consolidated putative securities class action, the court issued an order staying the federal derivative action until the earlier of: (a) sixty (60) days after the resolution of any motion for summary judgment filed in the putative class action lawsuit, (b) sixty (60) days after the deadline to file a motion for summary judgment in the putative class action lawsuit, if none is filed, or (c) the execution of any settlement agreement (including any partial settlement agreement) to resolve the putative class action lawsuit. On May 2, 2014, the court denied plaintiffs' ex parte motion to lift the stay. On May 16, 2014, the plaintiffs voluntarily withdrew their noticed motion to lift the stay. The case remains stayed.

State Shareholder Derivative Litigation

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

in the putative securities class action described above, as well as from allegations relating to sales of our common stock by the defendants and repurchases of our common stock. The complaint seeks an unspecified sum of damages and equitable relief. On October 24, 2012, another alleged shareholder filed a derivative lawsuit purportedly on behalf of the Company against certain of our officers and directors in the Superior Court of the State of California, Orange County, captioned *Jones v. Bailey, et al.*, Case No. 30-2012-00608001-CU-MC-CXC. The suit asserts claims substantially identical to those asserted in the *do Valle* derivative action. On February 19, 2013, the court issued an order staying the state derivative actions until the putative federal securities class action and federal derivative actions are resolved. On May 17, 2014, the Court granted plaintiff's request for dismissal without prejudice of the *Jones* action. The substantially similar *Do Valle* action remains stayed.

Put Options Securities Action

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

Retrophin Litigation

In January 2014, Retrophin Inc. filed a lawsuit against us in the United States District Court for the Central District of California, alleging a variety of federal and state antitrust violations based on our acquisition from Novartis of certain rights to develop, market, manufacture, distribute, sell and commercialize Synacthen. We filed a motion to dismiss the complaint in March 2014 and the hearing on this motion took place in June 2014. The Court's ruling on our motion to dismiss is pending.

Putative Class Action Securities Litigation Related to the Merger

Since the announcement of the merger agreement on April 7, 2014, Questcor, Mallinckrodt, Merger Sub, and Questcor's board of directors have been named as defendants in seven putative class and derivative actions on behalf of an alleged class of Questcor shareholders in the Superior Court of California, County of Orange. The complaints allege, inter alia, that the proposed merger between Questcor and Mallinckrodt involves an unfair price, an inadequate sales process, self-dealing, and unreasonable deal protection devices. On June 3, 2014, the Court consolidated the actions under the caption *In re Questcor Pharmaceuticals Inc. Shareholder Litigation*, Lead Case No. 30-2014-00716108-CUSL-CXC. On June 12, 2014, lead plaintiffs filed a consolidated class action complaint which included allegations that were substantially similar to those in the previously filed complaints. The complaint seeks, among other things, an order enjoining or rescinding the merger and an award of attorney's and other fees and costs.

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

Segment Reporting

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

Financial Information by Operating Segment. For the three and six months ended June 30, 2014 and 2013, information regarding our net sales and net income for our operating segments is as follows (in millions):

	Questcor	BioVectra	Intersegment Eliminations	Consolidated
Net Sales				
For the three months ended June 30, 2014	$ 261,412	$ 17,467	$ (49)	$ 278,830
For the three months ended June 30, 2013	$ 177,045	$ 7,693	$ (165)	$ 184,573
Net Income				
For the three months ended June 30, 2014	$ 92,239	$ 4,215	$ (18)	$ 96,436
For the three months ended June 30, 2013	$ 70,125	$ (1,015)	$ 13	$ 69,123

	Questcor	BioVectra	Intersegment Eliminations	Consolidated
Net Sales				
For the six months ended June 30, 2014	$ 471,180	$ 34,803	$ (49)	$ 505,934
For the six months ended June 30, 2013	$ 303,817	$ 16,078	$ (193)	$ 319,702
Net Income				
For the six months ended June 30, 2014	$ 162,574	$ 8,190	$ (18)	$ 170,746
For the six months ended June 30, 2013	$ 110,948	$ (2,770)	$ 7	$ 108,185

As of June 30, 2014 and December 31, 2013, information regarding total assets for our operating segments is as follows (in millions):

	Questcor	BioVectra	Intersegment Eliminations	Consolidated
Total Assets				
June 30, 2014	$ 874,006	$ 118,516	$ (84,684)	$ 907,838
December 31, 2013	$ 711,507	$ 108,510	$ (83,663)	$ 736,354

As of June 30, 2014 and December 31, 2013, information regarding capital expenditures for our operating segments is as follows (in millions):

	Questcor	BioVectra	Intersegment Eliminations	Consolidated
Total Capital Expenditures				
June 30, 2014	$ 1,620	$ 6,646	$ —	$ 8,266
December 31, 2013	$ 1,100	$ 2,426	$ 10	$ 3,536

Income Taxes

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

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

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

Equity Transactions

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

During the six months ended June 30, 2013, we did not repurchase any shares of our common stock. During the six months ended June 30, 2014, we used $2.1 million of our cash to repurchase 23,552 shares of our common stock. Under this share repurchase plan, we have repurchased a total of 17.0 million shares of our common stock for $365.1 million through June 30, 2014, at an average price of $21.50 per share. As of June 30, 2014, there are approximately 5.3 million shares authorized remaining under our stock repurchase plan. Additionally, we have repurchased 6.2 million shares outside of the approved share repurchase plan, for $30.3 million at an average purchase price of $4.93 per share. Total shares repurchased were 23.1 million for $395.5 million at an average price of $17.09 per share.

Our equity incentive award plan is broad-based and every Questcor full-time employee and certain Questcor part-time employees are eligible to receive a grant. The increase in our share-based compensation is due to the increase in Questcor employees (excluding BioVectra) from 425 on June 30, 2013 to 528 employees on June 30, 2014.

For the six months ended June 30, 2014, we granted options to employees and non-employee directors to purchase 14,150 shares of our common stock at a weighted average exercise price of $54.22 per share, which was equal to the weighted average of the fair market value of our common stock on the date of each grant. For the six months ended June 30, 2013, we granted options to employees and non-employee directors to purchase 343,623 shares of our common stock at a weighted average exercise price of $30.06 per share, which was equal to the weighted average of the fair market value of our common stock on the date of each grant. The total share-based compensation costs for the six months ended June 30, 2014 and 2013 included $5.3 million and $5.6 million, respectively, related to option grants.

For the six months ended June 30, 2014 and 2013, we issued 600,221 and 731,916 restricted stock awards, respectively. For the six months ended June 30, 2014, we issued 141,500 shares of performance-based restricted stock awards to executive officers and certain other employees. These performance-based restricted stock awards include a one-time performance achievement and vest according to the degree at which the performance milestone was achieved. At June 30, 2014, we estimated an achievement equal to a vesting of 40% of the performance-based restricted stock awards and recorded stock-based compensation expense associated with such grants. For the six months ended June 30, 2013, we issued 194,750 shares of performance-based restricted stock awards to executive officers and certain other employees. These performance-based restricted stock awards included a one-time performance achievement and vested according to the degree at which the performance milestone was achieved. During the first quarter of 2014, we determined that the 2013 performance-based restricted stock awards achieved a performance level equal to one-third vesting. The total share-based compensation costs for the six months ended June 30, 2014 and 2013 included $11.2 million and $5.4 million, respectively, related to restricted stock awards issued in prior periods.

For the six months ended June 30, 2014, we issued 18,155 restricted stock units to certain employees. No restricted stock units were granted for the six months ended June 30, 2013. The total share-based compensation costs for the six months ended June 30, 2014 included $241,920 related to restricted stock units. We did not have any share-based compensation costs related to restricted stock units for the six months ended June 30, 2013.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board or other standard setting bodies that are adopted by us as of the specified effective date.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior

reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

Subsequent Events

During the quarter, our subsidiary BioVectra Inc., acquired an idle pharmaceutical production facility in Windsor, Nova Scotia for C$2.4 million. BioVectra intends to retrofit the facility over the next 18 months to provide additional contract manufacturing capacity for specialized pharmaceutical fermentation and synthetic organic chemistry products. Subsequent to the quarter end, BioVectra signed a binding letter of intent with a customer to extend the duration of a supply agreement for a specialized pharmaceutical fermentation product through 2020.

We evaluated subsequent events that have occurred after June 30, 2014, and determined that there were no events or transactions occurring during this reporting period that require recognition or disclosure in our consolidated financial statements.

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

Except for the historical information contained herein, the following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this section, in Item 1A "Risk Factors" of Part II of this Quarterly Report, those discussed in our Annual Report on Form 10-K for the year ended December 31, 2013, as revised by our Current Report on Form 8-K filed with the SEC on July 10, 2014, including Item 1 "Business," and Item 1A "Risk Factors" of Part I of that Annual Report, as well as factors discussed in any documents incorporated by reference therein; and Part II, Item 1A of our Quarterly Report on Form 10-Q for the period ending March 31, 2014.

Overview

Business Overview

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

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

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

Questcor Pharmaceutical Segment

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

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

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

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

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

Acthar was originally approved by the FDA in 1952, for the treatment of approximately 50 different medical conditions, or "indications." This was prior to the enactment of the 1962 Kefauver Harris Amendment, or the "Drug Efficacy Amendment," to the Food, Drug, and Cosmetic Act, which introduced the requirement that drug manufacturers provide proof of the effectiveness (in addition to the previously required proof of safety) of their drugs before approval. As such, the FDA's original

approval in 1952 was based on safety; clinical trials evaluating efficacy were not required. In the 1970s the FDA reviewed the safety and efficacy of Acthar during its approval of Acthar for the treatment of acute exacerbations in Multiple Sclerosis (MS) and evaluated all other previous indications on the label through the process called DESI – Drug Efficacy Study Implementation. In this process the medical and scientific merits of the label and each indication on the label were evaluated based on publications, information from sponsors, and the judgment of the FDA. The label obtained after the DESI review and the addition of the MS indication is the Acthar label that was used until the most recent changes in 2010.

In 2010, in connection with its review of our supplemental New Drug Application, or sNDA, the FDA again reviewed evidence of safety and efficacy, added the treatment of Infantile Spasms (IS) to the label of approved indications, and maintained its approval of Acthar for the treatment of acute exacerbations in MS and 17 other indications, including proteinuria in the Nephrotic Syndrome without uremia of the idiopathic type or that due to lupus erythematosus, certain rheumatology-related indications and respiratory manifestations of symptomatic sarcoidosis. In conjunction with its decision to retain these indications on a modernized Acthar label, the FDA eliminated approximately 30 indications from the label. The FDA review included a medical and scientific review of Acthar and each indication (for example, an evaluation of the pathophysiology associated with each indication and the known and potential mechanism of action of Acthar for each indication) and an evaluation of available clinical and non-clinical literature that had become available through the date of the review. The FDA did not require us to perform additional clinical trials for Acthar.

FDA approval of Acthar for the treatment of specific indications allows Questcor to promote Acthar, under regulations provided by the FDA for such marketing, to physicians for such indications. Since 2008, Questcor has grown its field force of Acthar Specialists in order to increase physician awareness of the availability of Acthar to treat certain of its on-label indications. The Company’s efforts to increase awareness of, and familiarity with, Acthar is monitored by our regulatory, compliance and legal departments and is subject to FDA review.

Ultimately, each physician must decide for himself or herself whether the patient’s medical condition warrants the use of Acthar. In making that decision, the physician considers various forms of evidence as to the safety and efficacy of Acthar for each specific patient. Because Acthar was originally approved in 1952, prior to the 1962 Drug Efficacy Amendment, the evidence of the safety and efficacy of Acthar does not include clinical trials except for the IS and MS indications. By contrast, clinical trials have been required to establish both safety and efficacy for drugs approved since 1962. However, evidence as to safety and efficacy is not limited to clinical trials. Evidence can come in other forms such as prospective clinical datasets generated by third parties through independent clinical trials and case series or retrospective case reviews involving small numbers of patients. The approved indications for which Acthar is promoted and which generate a significant amount of the Company’s revenues typically include clinical evidence of this type. Physicians may also base treatment decisions on their own clinical experience, or the clinical experience of their peers, in prescribing a drug. Physicians likely consider other factors as well, including the availability and relative safety and efficacy of other therapies and, if applicable, the patient’s history on any such other therapies. In many cases where Acthar is a treatment option, the patients are extremely ill or debilitated from their condition. In IS, Acthar is a leading therapy, and one of only two FDA-approved therapies. For other indications, Acthar is often used as a “rescue” therapy after a patient has not adequately responded to, or had difficulties with, other treatment regimens.

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

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

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

Acquisition of Synacthen and Synacthen Depot

On June 11, 2013, the Effective Date, we acquired from Novartis AG and Novartis Pharma AG, collectively Novartis, a license to develop, market, manufacture, distribute, sell and commercialize Synacthen and Synacthen Depot for all uses in humans in the United States. Subject to certain conditions and limitations in the License Agreement, the license is exclusive, perpetual and irrevocable. Synacthen is a short-acting diagnostic product used to test adrenal gland function. Synacthen Depot is a synthetic melanocortin agonist approved in various countries outside of the United States for certain autoimmune and inflammatory conditions. Since our acquisition of Synacthen and Synacthen Depot, we have implemented a new research and development program for Synacthen Depot and intend to seek FDA approval. Prior to our acquisition, Synacthen Depot had never been developed for approval for patients in the United States.

On June 20, 2104, we acquired from Novartis a license and certain assets to develop, market, manufacture, distribute, sell and commercialize Synacthen and Synacthen Depot in certain countries outside the U.S. for all uses in humans. Subject to certain conditions and limitations, these rights and assets are exclusive, perpetual and irrevocable.

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

BioVectra Segment

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

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

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

Recent Developments

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

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

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

The proposed Merger has been unanimously approved by the boards of directors of Questcor and Mallinckrodt, and is supported by the management teams of both companies. On April 18, 2014, each of Mallinckrodt and Questcor filed a Pre-Merger Notification and Report Form pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the “HSR Act”) with the Antitrust Division and the Federal Trade Commission (“FTC”), and on May 9, 2014, the FTC granted early termination of the waiting period under the HSR Act with respect to the Merger. The registration statement on Form S-4 filed with the SEC by Mallinckrodt on May 16, 2014 and amended on July 11, 2014 was declared effective on July 11, 2014.

We currently expect the Merger to close in August of 2014, subject to the satisfaction of customary closing conditions, including the approval of the shareholders of both companies.

Results of Operations

Three months ended June 30, 2014 compared to the three months ended June 30, 2013:

Recorded Net Sales

	Three Months Ended June 30,		Increase/ (Decrease)	% Change
	2014	2013		
	(in $000's)			
Total pharmaceutical gross sales	$ 277,624	$ 203,580	$ 74,044	36 %
Sales reserves	16,212	26,535	(10,323)	(39)%
Total pharmaceutical net sales	261,412	177,045	84,367	48 %
Total contract manufacturing net sales	17,418	7,528	9,890	131 %
Total net sales	$ 278,830	$ 184,573	$ 94,257	51 %

Net sales for the three months ended June 30, 2014 and 2013 were derived from pharmaceutical net sales and contract manufacturing net sales. Pharmaceutical net sales are comprised primarily of net sales of Acthar, while contract manufacturing net sales are comprised of sales from BioVectra. Net sales of Acthar for the three months ended June 30, 2014 increased 48% to $261.4 million as compared to $177.0 million during the same period in 2013. Net sales from our contract manufacturing increased 131% to $17.4 million as compared to $7.5 million during the same period in 2013.

The growth in our pharmaceutical net sales was driven by increased vial demand from our specialty distributor for Acthar and an increase in our selling price, which together had the effect of increasing our total pharmaceutical gross sales and net sales. Additionally, our pharmaceutical net sales were also positively impacted by a reduction in our sales related reserves.

We shipped 8,850 vials for the three months ended June 30, 2014 as compared to 7,050 vials shipped for the three months ended June 30, 2013. While we do not receive complete information regarding prescriptions by therapeutic area, we believe the significant increase in vials shipped was driven by the expanded prescribing of Acthar by physicians to treat patients suffering from rheumatoid arthritis, systemic lupus erythematosus, dermatomyositis, polymyositis, nephrotic syndrome, multiple sclerosis exacerbations, and symptomatic sarcoidosis, which are all FDA-approved indications for Acthar. Additionally, the price we charge our distributor for a vial of Acthar was increased by 5% in both June 2013 and January 2014.

The increase in our pharmaceutical net sales was also attributable to the reduction in our sales related reserves as a percentage of sales. Our net sales of Acthar are impacted by the amount of our Medicaid and other sales reserves, which are deducted from pharmaceutical gross sales in the calculation of net sales. During the three months ended June 30, 2013, we accrued, based on information received in the quarter, an incremental Medicaid rebate liability of $11.5 million related to our 2001 entry into the Medicaid system subsequent to our acquisition of Acthar in 2001. The absence of this accrual in the second quarter of 2014 had the effect of increasing net sales relative to the second quarter of 2013. For the three months ended June 30, 2014, we recorded a provision of 5.5% of our gross revenue for sales-related reserves, a decrease from the 12.6% in the three months ended June 30, 2013.

We believe that over half of our growth in net sales of Acthar from the three months ended June 30, 2013 to the three months ended June 30, 2014 was due to increased vial shipments, with the remainder of our net sales growth being due to the increase in pricing and the absence of the $11.5 million accrual for Medicaid made in the second quarter of 2013. However, it is difficult to ascribe the sources of net sales growth to these individual factors as the factors might not be independent.

Net contract manufacturing sales from BioVectra for the three months ended June 30, 2014 were $17.4 million (representing 6.2% of total net sales), as compared to $7.5 million (representing 4.1% of total net sales) for the three months ended June 30, 2013. The increase was driven by increased demand for BioVectra's custom business, which includes its specialty pharmaceutical fermentation and synthetic manufacturing capabilities.

The demand for Acthar to treat NS, rheumatology related conditions, MS exacerbations, IS, and respiratory manifestations of symptomatic sarcoidosis is subject to significant short-term variability. We believe that investors should consider our results over several quarters when analyzing our performance. We believe that this variability in demand can be caused by several factors, including the following:

- Small Number of Prescriptions. Acthar is approved to treat patients with rare diseases. Therefore, the number of prescriptions for Acthar is small relative to many other drug products that are used for larger patient populations. As a result, prescriptions and sales for Acthar can have greater variability from quarter to quarter.
- MS Exacerbation Seasonality. The incidence of MS exacerbations is potentially higher in the summer months, possibly due to warmer weather, as well as during the holiday season, possibly due to increased stress.
- Insurance Plan Annual Enrollment. In prior first quarter periods, there were temporary reductions in the number of paid and shipped prescriptions for Acthar due to a slowdown in the processing of insurance coverage. Based on discussions with our reimbursement hub, as well as personnel at specialty pharmacies that process and ship Acthar prescriptions, we believe these slowdowns may have been due to additional insurance coverage verification activities required as a result of annual insurance plan re-enrollment.

Recommended treatment regimens among physicians prescribing Acthar for use in treating NS, rheumatology related conditions, MS exacerbations, IS and respiratory manifestations of symptomatic sarcoidosis vary within each therapeutic area. If physicians prescribe a lower number of vials for the treatment of any of these indications, our net sales of Acthar could decline. Additionally, we are aware that some prescriptions are initially for a lower number of vials than is necessary to complete the physician's recommended treatment regimen, and allow for one or more prescription refills. If patients do not obtain their refill prescriptions in order to complete their recommended treatment regimens, our net sales from the sale of Acthar would be negatively impacted. We may not be able to increase prescription levels by enough to offset any decline in vials per prescription.

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

Cost of Sales and Gross Profit

	Three months ended June 30,	
	2014	2013
	(in $000's)	
Pharmaceutical cost of sales	$ 14,141	$ 10,471
Contract manufacturing cost of sales	9,011	6,750
Total cost of sales	$ 23,152	$ 17,221
Pharmaceutical gross profit	$ 247,271	$ 166,574
Contract manufacturing gross profit	8,407	778
Total gross profit	$ 255,678	$ 167,352
Pharmaceutical gross margin	95%	94%
Contract manufacturing gross margin	48%	10%
Total gross margin	92%	91%

Cost of sales was $23.2 million for the three months ended June 30, 2014, as compared to $17.2 million for the three months ended June 30, 2013. Our gross margin and gross profit was 92%, or $255.7 million, respectively, for the three months ended June 30, 2014, as compared to 91%, or $167.4 million, respectively, for the three months ended June 30, 2013.

Cost of sales for the three months ended June 30, 2014 primarily included costs associated with the sale of Acthar ($14.1 million or 61% of the total cost of sales) and costs associated with our manufacturing activity at BioVectra ($9.0 million or 39% of the total cost of sales). Costs of sales for the three months ended June 30, 2013 primarily included costs associated with the sale of Acthar ($10.5 million or 61% of total cost of sales) and costs associated with our manufacturing activity at BioVectra ($6.8 million or 39% of total cost of sales). We include in cost of sales direct material costs, manufacturing labor, indirect manufacturing costs including plant supplies, packaging, warehousing and distribution, royalties, product liability

insurance, quality control (which primarily includes product stability and potency testing), quality assurance, depreciation of manufacturing equipment and facilities and reserves for excess or obsolete inventory.

The increase in gross profit dollars is due to continued growth in vials sold for all of our indications. The increase in cost of sales was primarily due to an increase in royalties on Acthar net sales, an increase in direct material costs, manufacturing labor, indirect manufacturing costs including plant supplies, packaging, warehousing and distribution associated with the increase in sales from BioVectra, and the increase in costs associated with the distribution of Acthar, including our hub reimbursement support center.

The increase in the overall gross margin quarter over quarter is primarily due to higher profit margins realized on BioVectra's custom business associated with specialty pharmaceutical fermentation and synthetic manufacturing capabilities, which generally result in higher margins than core product sales.

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

Selling and Marketing

	Three Months Ended June 30,			
	2014	2013	Increase/ (Decrease)	% Change
	(in $000's)			
Selling and marketing expense	$ 56,792	$ 37,900	$ 18,892	50%

Selling and marketing expenses were $56.8 million for the three months ended June 30, 2014, as compared to $37.9 million for the three months ended June 30, 2013. The increase of $18.9 million in 2014 as compared to 2013 is due primarily to increases in headcount-related costs and costs associated with our expanded sales and marketing efforts. We include in sales and marketing expenses headcount-related costs, including share-based compensation costs, promotional costs and physician program costs. We have expanded our sales force and expect selling and marketing expenses to increase in future periods.

Our pilot effort focused on educating pulmonologists about Acthar in the treatment of respiratory manifestations of symptomatic sarcoidosis has generated a positive response over the last few months, consistent with our previous pilot detailing efforts in both nephrology and rheumatology. Prescribing activity by pulmonologists has eclipsed our expectations since the pilot effort began in February 2014. As a result of these encouraging early results, we will be expanding the pulmonology sales force from 7 to 35 Acthar representatives and expect to complete this expansion by January 2015.

General and Administrative

	Three Months Ended June 30,			
	2014	2013	Increase/ (Decrease)	% Change
	(in $000's)			
General and administrative expense	$ 26,848	$ 13,126	$ 13,722	105%

General and administrative expenses were $26.8 million for the three months ended June 30, 2014, as compared to $13.1 million for the three months ended June 30, 2013. We include in general and administrative expenses headcount-related costs, including stock-based compensation expense, legal and accounting expenses. The increase of $13.7 million in 2014 as compared to 2013 is due primarily to increased legal costs, costs associated with the merger with Mallinckrodt (representing $7.5 million for the three months ended June 30, 2014), and increased headcount and headcount-related costs to support our growth.

Research and Development

	Three Months Ended June 30,		Increase/ (Decrease)	% Change
	2014	2013		
	(in $000's)			
Research and development	$ 22,008	$ 12,240	$ 9,768	80%

Research and development expenses were $22.0 million in the three months ended June 30, 2014, as compared to $12.2 million for the three months ended June 30, 2013. The increase of $9.8 million in research and development expenses for the three months ended June 30, 2014 as compared to the same period in 2013 reflects the Company's ongoing efforts to further build the body of clinical evidence for Acthar, clarify the potential immune-modulating properties of Acthar and Synacthen Depot, and identify mechanisms of action that could be potentially applicable to other inflammatory and auto-immune diseases with high unmet medical needs. Research and development expenses for the three months ended June 30, 2014 included an upfront payment to a third party of $3.3 million in connection with a research and development agreement. The Company is also identifying new patient populations in which to evaluate both Acthar and Synacthen Depot through exploratory clinical studies.

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

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

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

For the three months ended June 30, 2014, approximately 4% of our research and development expenditures were for regulatory costs, 55% was spent on product development costs, 31% of our research and development expenditures were for medical affairs costs, and approximately 10% was spent on manufacturing costs.

For the three months ended June 30, 2013, approximately 5% of our research and development expenditures were for regulatory costs, 43% was spent on product development costs, 39% of our research and development expenditures were for medical affairs costs, and approximately 13% was spent on manufacturing costs.

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

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

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

Share-based compensation costs. Total share-based compensation costs for the three months ended June 30, 2014 and 2013 were $8.8 million and $6.5 million, respectively.

Our equity incentive award plan is broad-based and every Questcor full-time employee and certain Questcor part-time employees are eligible to receive a grant. The increase in our share-based compensation is due to the increase in Questcor employees (excluding BioVectra) from 425 on June 30, 2013 to 528 employees on June 30, 2014.

For the three months ended June 30, 2014, we did not grant any options to employees or non-employee directors. For the three months ended June 30, 2013, we granted options to employees and non-employee directors to purchase 140,873 shares of our common stock at a weighted average exercise price of $35.22 per share, which was equal to the weighted average of the fair market value of our common stock on the date of each grant. The total share-based compensation costs for the three months ended June 30, 2014 and 2013 included $2.5 million and $2.7 million, respectively, related to option grants.

For the three months ended June 30, 2014 and 2013, we issued 183,020 and 65,713 restricted stock awards, respectively. The total share-based compensation costs for the three months ended June 30, 2014 and 2013 included $5.7 million and $3.3 million, respectively.

For the three months ended June 30, 2014, we issued 2,330 restricted stock units to certain employees. No restricted stock units were granted for the three months ended June 30, 2013. The total share-based compensation costs for the three months ended June 30, 2014 included $0.2 million related to restricted stock units.

The following table sets forth our share-based compensation costs for the three months ended June 30, 2014 and 2013, respectively (in thousands):

	Three Months Ended June 30,	
	2014	2013
Selling and marketing	$ 3,749	$ 2,570
General and administrative	3,462	2,685
Research and development	1,562	1,276
Total	$ 8,773	$ 6,531

Depreciation and amortization. Depreciation and amortization expense for the three months ended June 30, 2014 was $1.1 million, as compared to $1.0 million for the three months ended June 30, 2013.

Income tax expense. Income tax expense for the three months ended June 30, 2014 was $51.2 million, as compared to $34.0 million for the three months ended June 30, 2013. The increase in income tax expense of $17.2 million in 2014 as compared to 2013 was primarily due to the increase in income before income taxes. Our foreign earnings attributable to the BioVectra acquisition will be permanently reinvested in such foreign jurisdiction and, therefore, no deferred tax liabilities for U.S. income taxes have been provided for on any undistributed earnings.

Results of Operations

Six months ended June 30, 2014 compared to the six months ended June 30, 2013:

Recorded Net Sales

	Six Months Ended June 30,		Increase/ (Decrease)	% Change
	2014	2013		
	(in $000's)			
Total pharmaceutical gross sales	$ 499,037	$ 340,958	$ 158,079	46 %
Sales reserves	27,857	37,141	(9,284)	(25)%
Total pharmaceutical net sales	471,180	303,817	167,363	55 %
Total contract manufacturing net sales	34,754	15,885	18,869	119 %
Total net sales	$ 505,934	$ 319,702	$ 186,232	58 %

Net sales for the six months ended June 30, 2014 and 2013 were derived from pharmaceutical net sales and contract manufacturing net sales. Pharmaceutical net sales are comprised primarily of net sales of Acthar, while contract manufacturing net sales are comprised of sales from BioVectra. Net sales of Acthar for the six months ended June 30, 2014 increased 55% to $471.2 million as compared to $303.7 million during the same period in 2013. Net sales from our contract manufacturing increased 119% to $34.8 million as compared to $15.9 million during the same period in 2013.

The growth in our pharmaceutical net sales was driven by increased vial demand from our specialty distributor for Acthar and an increase in our selling price, which together had the effect of increasing our total pharmaceutical gross sales and net sales. Additionally, our pharmaceutical net sales were also positively impacted by a reduction in our sales related reserves.

We shipped 15,930 vials for the six months ended June 30, 2014 as compared to 11,880 vials shipped for the six months ended June 30, 2013. While we do not receive complete information regarding prescriptions by therapeutic area, we believe the significant increase in vials shipped was driven by the expanded prescribing of Acthar by physicians to treat patients suffering from rheumatoid arthritis, systemic lupus erythematosus, dermatomyositis, polymyositis, nephrotic syndrome, multiple sclerosis exacerbations, and symptomatic sarcoidosis, which are all FDA-approved indications for Acthar. Additionally, the price we charge our distributor for a vial of Acthar was increased by 5% in both June 2013 and January 2014.

The increase in our pharmaceutical net sales was also attributable to the reduction in our sales related reserves as a percentage of sales. Our net sales of Acthar are impacted by the amount of our Medicaid and other sales reserves, which are deducted from pharmaceutical gross sales in the calculation of net sales. During the six months ended June 30, 2013, we accrued, based on information received in the quarter, in incremental Medicaid rebate liability of $11.5 million related to our 2001 entry into the Medicaid system subsequent to our acquisition of Acthar in 2001. For the six months ended June 30, 2014, we recorded a provision of 5.2% of our gross revenue for sales-related reserves, a decrease from the 10.4% in the six months ended June 30, 2013.

We believe that over half of our growth in net sales of Acthar from the six months ended June 30, 2013 to the six months ended June 30, 2014 was due to increased vial shipments, with the remainder of our net sales growth being due to the increase in pricing and the absence of the $11.5 million accrual for Medicaid made in the six months ended June 30, 2013. However, it is difficult to ascribe the sources of net sales growth to these individual factors as the factors might not be independent.

Net contract manufacturing sales from BioVectra for the six months ended June 30, 2014 were $34.8 million (representing 6.9% of total net sales), as compared to $15.9 million (representing 5.0% of total net sales) for the six months ended June 30, 2013. The increase was driven by increased demand for BioVectra's specialty pharmaceutical fermentation and synthetic manufacturing capabilities.

The demand for Acthar to treat NS, rheumatology related conditions, MS exacerbations, IS, and respiratory manifestations of symptomatic sarcoidosis is subject to significant short-term variability. We believe that investors should consider our results over several quarters when analyzing our performance.

Recommended treatment regimens among physicians prescribing Acthar for use in treating NS, rheumatology related conditions, MS exacerbations, IS and respiratory manifestations of symptomatic sarcoidosis vary within each therapeutic area. If physicians prescribe a lower number of vials for the treatment of any of these indications, our net sales of Acthar could decline. Additionally, we are aware that some prescriptions are initially for a lower number of vials than is necessary to complete the physician's recommended treatment regimen, and allow for one or more prescription refills. If patients do not obtain their refill prescriptions in order to complete their recommended treatment regimens, our net sales from the sale of Acthar would be negatively impacted. We may not be able to increase prescription levels by enough to offset any decline in vials per prescription.

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

Cost of Sales and Gross Profit

	Six months ended June 30,	
	2014	**2013**
	(in $000's)	
Pharmaceutical cost of sales	$ 26,456	$ 18,507
Contract manufacturing cost of sales	18,106	14,903
Total cost of sales	$ 44,562	$ 33,410
Pharmaceutical gross profit	$ 444,724	$ 285,310
Contract manufacturing gross profit	16,648	982
Total gross profit	$ 461,372	$ 286,292
Pharmaceutical gross margin	94%	94%
Contract manufacturing gross margin	48%	6%
Total gross margin	91%	90%

Cost of sales was $44.6 million for the six months ended June 30, 2014, as compared to $33.4 million for the six months ended June 30, 2013. Our gross margin and gross profit was 91%, or $461.4 million, respectively, for the six months ended June 30, 2014, as compared to 90%, or $286.3 million, respectively, for the six months ended June 30, 2013.

Cost of sales for the six months ended June 30, 2014 primarily included costs associated with the sale of Acthar ($26.5 million or 59% of the total cost of sales) and costs associated with our manufacturing activity at BioVectra ($18.1 million or 41% of the total cost of sales). Costs of sales for the six months ended June 30, 2013 primarily included costs associated with the sale of Acthar ($18.5 million or 55% of total cost of sales) and costs associated with our manufacturing activity at BioVectra ($14.9 million or 45% of total cost of sales). We include in cost of sales direct material costs, manufacturing labor, indirect manufacturing costs including plant supplies, packaging, warehousing and distribution, royalties, product liability insurance, quality control (which primarily includes product stability and potency testing), quality assurance, depreciation of manufacturing equipment and facilities and reserves for excess or obsolete inventory.

The increase in gross profit dollars is due to continued growth in vials sold for all of our indications. The increase in cost of sales was primarily due to an increase in royalties on Acthar net sales, an increase in direct material costs, manufacturing labor, indirect manufacturing costs including plant supplies, packaging, warehousing and distribution associated with the increase in sales from BioVectra, and the increase in costs associated with the distribution of Acthar, including our hub reimbursement support center.

The increase in the overall gross margin quarter over quarter is primarily due to higher profit margins realized on BioVectra's custom business associated with specialty pharmaceutical fermentation and synthetic manufacturing capabilities, which generally result in higher margins than core product sales.

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

Selling and Marketing

	Six Months Ended June 30,			
	2014	2013	Increase/ (Decrease)	% Change
	(in $000's)			
Selling and marketing expense	$ 103,859	$ 73,362	$ 30,497	42%

Selling and marketing expenses were $103.9 million for the six months ended June 30, 2014, as compared to $73.4 million for the six months ended June 30, 2013. The increase of $30.5 million in 2014 as compared to 2013 is due primarily to increases in headcount-related costs and costs associated with our expanded sales and marketing efforts. We include in sales and marketing expenses headcount-related costs, including share-based compensation costs, promotional costs and physician program costs. We have expanded our sales force and expect selling and marketing expenses to increase in future periods.

Our pilot effort focused on educating pulmonologists about Acthar in the treatment of respiratory manifestations of symptomatic sarcoidosis has generated a positive response over the last few months, consistent with our previous pilot detailing efforts in both nephrology and rheumatology. Prescribing activity by pulmonologists has eclipsed our expectations since the pilot effort began in February 2014. As a result of these encouraging early results, we will be expanding the pulmonology sales force from 7 to 35 Acthar representatives and expect to complete this expansion by January 2015.

General and Administrative

	Six Months Ended June 30,			
	2014	2013	Increase/ (Decrease)	% Change
	(in $000's)			
General and administrative expense	$ 49,475	$ 25,675	$ 23,800	93%

General and administrative expenses were $49.5 million for the six months ended June 30, 2014, as compared to $25.7 million for the six months ended June 30, 2013. We include in general and administrative expenses headcount-related costs, including stock-based compensation expense, legal and accounting expenses. The increase of $23.8 million in 2014 as compared to 2013 is due primarily to increased legal costs, costs associated with the merger with Mallinckrodt (representing $7.5 million for the six months ended June 30, 2014), and increased headcount and headcount-related costs to support our growth.

Research and Development

	Six Months Ended June 30,			
	2014	2013	Increase/ (Decrease)	% Change
	(in $000's)			
Research and development	$ 41,937	$ 23,033	$ 18,904	82%

Research and development expenses were $41.9 million in the six months ended June 30, 2014, as compared to $23.0 million for the six months ended June 30, 2013. The increase of $18.9 million in research and development expenses for the six months ended June 30, 2014 as compared to the same period in 2013 reflects the Company's ongoing efforts to further build the body of clinical evidence for Acthar, clarify the potential immune-modulating properties of Acthar and Synacthen Depot, and identify mechanisms of action that could be potentially applicable to other inflammatory and auto-immune diseases with high unmet medical needs. Research and development expenses for the six months ended June 30, 2014 included an upfront payment to a third party of $3.3 million in connection with a research and development agreement. The Company is also identifying new patient populations in which to evaluate both Acthar and Synacthen Depot through exploratory clinical studies.

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

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

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

For the six months ended June 30, 2014, approximately 4% of our research and development expenditures were for regulatory costs, 57% was spent on product development costs, 28% of our research and development expenditures were for medical affairs costs, and approximately 11% was spent on manufacturing costs.

For the six months ended June 30, 2013, approximately 4% of our research and development expenditures were for regulatory costs, 42%was spent on product development costs, 41% of our research and development expenditures were for medical affairs costs, and approximately 13% was spent on manufacturing costs.

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

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

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

Share-based compensation costs. Total share-based compensation costs for the six months ended June 30, 2014 and 2013 were $17.5 million and $12.7 million, respectively.

Our equity incentive award plan is broad-based and every Questcor full-time employee and certain Questcor part-time employees are eligible to receive a grant. The increase in our share-based compensation is due to the increase in Questcor employees (excluding BioVectra) from 425 on June 30, 2013 to 528 employees on June 30, 2014.

For the six months ended June 30, 2014, we granted options to employees and non-employee directors to purchase 14,150 shares of our common stock at a weighted average exercise price of $54.22 per share, which was equal to the weighted average of the fair market value of our common stock on the date of each grant. For the six months ended June 30, 2013, we granted options to employees and non-employee directors to purchase 343,623 shares of our common stock at a weighted average exercise price of $30.06 per share, which was equal to the weighted average of the fair market value of our common stock on the date of each grant. The total share-based compensation costs for the six months ended June 30, 2014 and 2013 included $5.3 million and $5.6 million, respectively, related to option grants.

For the six months ended June 30, 2014 and 2013, we issued 600,221 and 731,916 restricted stock awards, respectively. For the six months ended June 30, 2014, we issued 141,500 shares of performance-based restricted stock awards to executive officers and certain other employees. These performance-based restricted stock awards include a one-time performance achievement and vest according to the degree at which the performance milestone was achieved. At June 30, 2014, we estimated an achievement equal to a vesting of 40% of the performance-based restricted stock awards and recorded stock-based compensation expense associated with such grants. For the six months ended June 30, 2013, we issued 194,750 shares of performance-based restricted stock awards to executive officers and certain other employees. These performance-based restricted stock awards include a one-time performance achievement and vested according to the degree at which the performance milestone was achieved. During the first quarter of 2014, we determined that the 2013 performance-based restricted stock awards achieved a performance level equal to one-third vesting. The total share-based compensation costs for the six months ended June 30, 2014 and 2013 included $11.2 million and $5.4 million, respectively.

For the six months ended June 30, 2014, we issued 18,155 restricted stock units to certain employees. No restricted stock units were granted for the six months ended June 30, 2013. The total share-based compensation costs for the six months ended June 30, 2014 included $0.2 million related to restricted stock units.

The following table sets forth our share-based compensation costs for the six months ended June 30, 2014 and 2013, respectively (in thousands):

	Six Months Ended June 30,	
	2014	2013
Selling and marketing	$ 6,866	$ 5,024
General and administrative	7,297	5,223
Research and development	3,306	2,432
Total	$ 17,469	$ 12,679

Depreciation and amortization. Depreciation and amortization expense was $2.1 million for both the six months ended June 30, 2014 and 2013.

Income tax expense. Income tax expense for the six months ended June 30, 2014 was $89.8 million, as compared to $52.4 million for the six months ended June 30, 2013. The increase in income tax expense of $37.3 million in 2014 as compared to 2013 was primarily due to the increase in income before income taxes. Our foreign earnings attributable to the BioVectra acquisition will be permanently reinvested in such foreign jurisdiction and, therefore, no deferred tax liabilities for U.S. income taxes have been provided for on any undistributed earnings.

Liquidity and Capital Resources

Cash and cash equivalents, short term investments and working capital as of June 30, 2014 and December 31, 2013 were as follows (in thousands):

Financial Assets:

	June 30, 2014	December 31, 2013
Cash and cash equivalents	$ 331,679	$ 175,840
Short term investments	61,074	69,166
Cash, cash equivalents and short term investments	$ 392,753	$ 245,006

Select measures of liquidity and capital resources:

	June 30, 2014	December 31, 2013
Current assets	$ 595,239	$ 396,776
Current liabilities	187,734	160,570
Working Capital	$ 407,505	$ 236,206
Current ratio	3.17	2.47

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

The increase in cash, cash equivalents and short-term investments from December 31, 2013 to June 30, 2014 was primarily due to the increase in the related cash generated from operations. The increase in our working capital was primarily due to increases in our overall cash position and accounts receivable, offset primarily by an increase accounts payable and accrued royalties. Accrued royalties were $46.4 million at June 30, 2014, primarily representing amounts withheld from Glenridge subject to the pending litigation. We continue to maintain a letter of credit of $75 million representing the first three anniversary payments due to Novartis for the acquisition of Synacthen and Synacthen Depot. We paid the first $25.0 million annual amount to Novartis in June 2014. However, as of June 30, 2014, we were unable to reduce the $75 million letter of credit by $25.0 million due to the terms of the letter of credit. We anticipate the letter of credit will be reduced to $50 million in August 2014.

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

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

Cash Flows

Change in cash and cash equivalents:

(in $000's)	Six Months Ended June 30, 2014	2013	Increase/ (Decrease)
Net cash flows provided by operating activities	$ 205,431	$ 122,991	$ 82,440
Net cash flows used in investing activities	(29,473)	(117,925)	88,452
Net cash flows used in financing activities	(20,208)	(3,596)	(16,612)
Impact of exchange rates on cash flows	89	(313)	402
Net change in cash and cash equivalents	$ 155,839	$ 1,157	$ 154,682

Operating Activities

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

- Our reported net income, adjusted for non-cash items, including share-based compensation expense, deferred income taxes, amortization of investments, depreciation and amortization, impairment of purchased intangibles and goodwill, loss on disposal of property and equipment, change in fair value of contingent consideration, imputed interest on contingent consideration and other compensation expense was $206.6 million and $128.6 million for the six months ended June 30, 2014 and 2013, respectively.

- Net cash outflow due to changes in operating assets and liabilities was $1.2 million for the six months ended June 30, 2014 compared to the net cash outflow of $5.6 million for the six months ended June 30, 2013. The $1.2 million change in operating assets and liabilities primarily relates to an increase in accounts

payable of $20.3 million as a result of both timing of payment and continued operational growth, an increase in accrued royalties of $11.2 million, offset by an increase in accounts receivable of $17.9 million as a result of an increase in sales, and a decrease in sales reserves of $8.5 million due to the favorable change in our Medicaid rebate rate and the partial payment of the 2001-2009 Medicaid accrual recorded in 2013.

Investing Activities

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

- Purchases of property and equipment of $8.3 million;
- Purchases of short term investments of $33.6 million;
- Earn out payment to BioVectra of $4.6 million;
- Maturities of short term investments of $41.2 million; and
- Annual cash payment for Synacthen and Synacthen Depot of $25.0 million.

Financing Activities

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

- the income tax benefit realized on our share-based compensation plans of $17.7 million; offset by
- the repurchase of 23,552 shares of common stock for $2.1 million; and
- the dividends paid during the quarter in the amount of $36.5 million.

We review our level of liquidity and anticipated cash needs for the business on an ongoing basis, and consider whether to return additional capital to our shareholders as well as alternative methods to return capital. Historically, our primary method of returning capital to shareholders has been open market share repurchases and dividend payments. Since the beginning of 2008, we have repurchased a total of 23.1 million shares of our common stock under our stock repurchase plan for $395.5 million through June 30, 2014, at an average price of $17.09 per share. As of June 30, 2014, there are 5.3 million shares authorized remaining under our stock repurchase plan.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

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

Foreign Currency Exchange Risk

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

ITEM 4. CONTROLS AND PROCEDURES

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

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

As required by Exchange Act Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial and accounting officer), of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this quarterly report on Form 10-Q. Based on the foregoing, our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial and accounting officer) concluded that our disclosure controls and procedures were effective as of June 30, 2014.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

Glenridge Litigation

In June 2011, Glenridge Pharmaceuticals LLC, or Glenridge, filed a lawsuit against us in the Superior Court of California, Santa Clara County, alleging that we had underpaid royalties to Glenridge, in connection with the timing of the impact of various offsets in the calculation of net sales. In August 2012, we filed a separate lawsuit against the three principals of Glenridge, as well as Glenridge, challenging the enforceability of our agreement with Glenridge. Our lawsuit alleges that Kenneth Greathouse breached his fiduciary duties to the Company and that his partners at Glenridge aided and abetted his breach. In the January 2013, we began to withhold royalty payments from Glenridge. In August 2013, the two lawsuits were consolidated into one case in the Superior Court of California, Santa Clara County. We filed a motion for summary adjudication seeking to declare our agreement with Glenridge unenforceable. The Court denied it on March 6, 2014, finding that triable issues of fact existed as to whether the Glenridge agreement was enforceable. Glenridge subsequently filed its own motion for summary judgment that seeks to dismiss Questcor's affirmative claims on the grounds that they are time-barred. The Court denied Glenridge's motion for summary judgment on June 4, 2014. The Court set a trial for November 3, 2014.

USAO Investigation

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

Putative Class Action Securities Litigation

On September 26, 2012, a putative class action lawsuit was filed against us and certain of our officers and directors in the United States District Court for the Central District of California, captioned *John K. Norton v. Questcor Pharmaceuticals, et al.*, No. SACv12-1623 DMG (FMOx). The complaint purports to be brought on behalf of shareholders who purchased our common stock between April 26, 2011 and September 21, 2012. The complaint generally alleges that we and certain of our officers and directors engaged in various acts to artificially inflate the price of our stock and enable insiders to profit through stock sales. The complaint asserts that we and certain of our officers and directors violated sections 10(b) and/or 20(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, by making allegedly false and/or misleading statements concerning the clinical evidence to support the use of Acthar for indications other than infantile spasms, the promotion of the sale and use of Acthar in the treatment of MS and nephrotic syndrome, reimbursement for Acthar from third-party insurers, and our outlook and potential market growth for Acthar. The complaint seeks damages in an unspecified amount and equitable relief against the defendants. This lawsuit has been consolidated with four subsequently-filed actions asserting similar claims under the caption: *In re Questcor Securities Litigation*, No. CV 12-01623 DMG (FMOx). On October 1, 2013, the District Court granted in part and denied in part our motion to dismiss the consolidated amended complaint. On October 29, 2013, we filed an answer to the consolidated amended complaint. Discovery is currently ongoing. The Court set a jury trial for December 1, 2015.

Federal Shareholder Derivative Litigation

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

class action lawsuit. On May 2, 2014, the court denied plaintiffs' ex parte motion to lift the stay. On May 16, 2014, the plaintiffs voluntarily withdrew their noticed motion to lift the stay. The case remains stayed.

State Shareholder Derivative Litigation

On October 2, 2012, an alleged shareholder filed a derivative lawsuit purportedly on behalf of the Company against certain of our officers and directors in the Superior Court of the State of California, Orange County, captioned *Monika do Valle v. Virgil D. Thompson, et al.*, No. 30-2012-00602258-CU-SL-CXC. The complaint asserts claims for breach of fiduciary duty, abuse of control, mismanagement and waste of corporate assets arising from substantially similar allegations as those contained in the putative securities class action described above, as well as from allegations relating to sales of our common stock by the defendants and repurchases of our common stock. The complaint seeks an unspecified sum of damages and equitable relief. On October 24, 2012, another alleged shareholder filed a derivative lawsuit purportedly on behalf of the Company against certain of our officers and directors in the Superior Court of the State of California, Orange County, captioned *Jones v. Bailey, et al.*, Case No. 30-2012-00608001-CU-MC-CXC. The suit asserts claims substantially identical to those asserted in the *do Valle* derivative action. On February 19, 2013, the court issued an order staying the state derivative actions until the putative federal securities class action and federal derivative actions are resolved. On May 17, 2014, the Court granted plaintiff's request for dismissal without prejudice of the *Jones* action. The substantially similar *Do Valle* action remains stayed.

Put Options Securities Action

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

Retrophin Litigation

In January 2014, Retrophin Inc. filed a lawsuit against us in the United States District Court for the Central District of California, alleging a variety of federal and state antitrust violations based on our acquisition from Novartis of certain rights to develop, market, manufacture, distribute, sell and commercialize Synacthen. We filed a motion to dismiss the complaint in March 2014 and the hearing on this motion took place in June 2014. The Court's ruling on our motion to dismiss is pending.

Putative Class Action Securities Litigation Related to the Merger

Since the announcement of the merger agreement on April 7, 2014, Questcor, Mallinckrodt, Merger Sub, and Questcor's board of directors have been named as defendants in seven putative class and derivative actions on behalf of an alleged class of Questcor shareholders in the Superior Court of California, County of Orange. The complaints allege, inter alia, that the proposed merger between Questcor and Mallinckrodt involves an unfair price, an inadequate sales process, self-dealing, and unreasonable deal protection devices. On June 3, 2014, the Court consolidated the actions under the caption *In re Questcor Pharmaceuticals Inc. Shareholder Litigation*, Lead Case No. 30-2014-00716108-CUSL-CXC. On June 12, 2014, lead plaintiffs filed a consolidated class action complaint which included allegations that were substantially similar to those in the previously filed complaints. The complaint seeks, among other things, an order enjoining or rescinding the merger and an award of attorney's and other fees and costs.

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

ITEM 1A. RISK FACTORS

You should carefully consider the risks described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the SEC on February 26, 2014, as revised by our Current Report on Form 8-K filed with the SEC on July 10, 2014, including Item 1 “Business of Questcor,” and Item 1A “Risk Factors” of Part I of that Annual Report, as well as factors discussed in any documents incorporated by reference therein; and Part II, Item 1A of our Report on Form 10-Q for the period ending March 31, 2014. Our business, financial condition and results of operations could be adversely affected by any of the risks and uncertainties described therein. There have been no material changes in our risk factors from those disclosed in the report listed above.

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

During the period from April 1, 2014 through June 30, 2014, we repurchased the following shares of our common stock:

Period [1]	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
April 1 - April 30, 2014	—	$ —	—	5,292,793
May 1 - May 31, 2014	—	$ —	—	5,292,793
June 1 - June 30, 2014	23,552	$ 91.10	23,552	5,269,241
Total	23,552	$ 91.10	23,552	

(1) In February 2008, our Board of Directors approved a stock repurchase plan that provides for the repurchase of up to 7 million shares of our common stock. Stock repurchases under this program may be made through either open market or privately negotiated transactions in accordance with all applicable laws, rules and regulations. On May 29, 2009, our Board of Directors increased the stock repurchase program authorization by an additional 6.5 million shares, on May 9, 2012, our Board of Directors increased the stock repurchase program authorization by an additional 5 million shares, and on September 28, 2012, our Board of Directors increased the stock repurchase program authorization to 7 million shares, including the 3.2 million shares that were remaining under the prior authorization.

During the six months ended June 30, 2013, we did not repurchase any shares of our common stock. During the six months ended June 30, 2014, we used $2.1 million of our cash to repurchase 23,552 shares of our common stock. Under this share repurchase plan, we have repurchased a total of 17.0 million shares of our common stock for $365.1 million through June 30, 2014, at an average price of $21.50 per share. As of June 30, 2014, there are approximately 5.3 million shares authorized remaining under our stock repurchase plan. Additionally, we have repurchased 6.2 million shares outside of the approved share repurchase plan, for $30.3 million at an average purchase price of $4.93 per share. Total shares repurchased were 23.1 million for $395.5 million at an average price of $17.09 per share.

Our Board of Directors has adopted a policy to pay a regular quarterly dividend in such amounts as the Board of Directors may determine from time to time. The Board of Directors declared an initial quarterly cash dividend of $0.20 per share to all shareholders of record at the close of business on October 31, 2012. In February 2013, we announced an increase in our quarterly cash dividend from $0.20 per share to $0.25 per share, and in October 2013, we announced a further increase in our quarterly cash dividend to $0.30 per share. In July 2014, we paid a quarterly cash dividend of $0.30 per share to shareholders of record on July 1, 2014. Under the terms of the Merger Agreement with Mallinckrodt, we are restricted from paying any further dividends on our common stock.

Our plan does not have an expiration date. We do not currently intend to conduct business development activities which would utilize a material portion of our liquidity. We review our level of liquidity and anticipated cash needs for the business on an ongoing basis, and consider whether to return additional capital to our shareholders as well as alternative methods to return capital.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

Exhibit No	Description
2.1	Agreement and Plan of Merger, dated April 5, 2014, by and among Mallinckrodt plc, Quincy Merger Sub, Inc. and Questcor Pharmaceuticals, Inc. (schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K). Filed as an exhibit to the Company's Current report on Form 8-K, filed on April 7, 2014, and incorporated herein by reference.
10.1	Amendment to Questcor Pharmaceuticals, Inc. Amended and Restated Equity Incentive Plan.
10.2	Amendment to Severance Agreement, by and between Questcor Pharmaceuticals, Inc. and Michael Mulroy, dated April 6, 2014.
10.3	Amendment to Severance Agreement, by and between Questcor Pharmaceuticals, Inc. and Rajesh Asarpota, dated May 13, 2014.
10.4	Amendment to Amended and Restated Employment Agreement, by and between Questcor Pharmaceuticals, Inc. and Don Bailey, dated May 28, 2014.
10.5	Amendment to Employment Agreement and Amended Change in Control Letter Agreement, by and between Questcor Pharmaceuticals, Inc. and Stephen Cartt, dated May 16, 2014.
10.6	Amendment to Severance Agreement and Change in Control Letter Agreement, by and between Questcor Pharmaceuticals, Inc. and David Medeiros, dated May 19, 2014.
10.7	Amendment to Severance Agreement, by and between Questcor Pharmaceuticals, Inc. and David Young, dated May 23, 2014.
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
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101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Furnished herewith.

SIGNATURES

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

QUESTCOR PHARMACEUTICALS, INC.

Date: July 25, 2014 By: /s/ Don M. Bailey

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

By: /s/ Rajesh Asarpota

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

Exhibit Index

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* Furnished herewith.

Exhibit 10.1

AMENDMENT TO
QUESTCOR PHARMACEUTICALS, INC.
AMENDED AND RESTATED 2006 EQUITY INCENTIVE AWARD PLAN

This Amendment ("Amendment") to the Questcor Pharmaceuticals, Inc. Amended and Restated 2006 Equity Incentive Award Plan (the "Plan"), is adopted by the Board of Directors (the "Board") of Questcor Pharmaceuticals, Inc., a California corporation (the "Company"), effective as of April 5, 2014 (the "Effective Date"). Capitalized terms used in this Amendment and not otherwise defined herein shall have the meanings ascribed to such terms in the Plan.

RECITALS

A. The Company, Mallinckrodt plc, an Irish public limited company, and Quincy Merger Sub, Inc. a Delaware corporation (the "Merger Sub"), propose to enter into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Merger Sub will merge with and into the Company, with the Company as the surviving corporation of such merger (the "Merger").

B. The Company currently maintains the Plan.

C. Pursuant to Section 15.1 of the Plan, the Board has the authority to amend or modify the Plan at any time and from time to time.

D. The Board believes it is in the best interests of the Company and its shareholders to, among other things and in connection with the Merger, amend the Plan to provide for the acceleration of vesting of outstanding equity awards in certain circumstances.

AMENDMENT

The Plan is hereby amended as follows, effective as the Effective Date.

1. Section 12.2(b). Section 12.2(b) of the Plan is hereby deleted and replaced in its entirety with the following:

> "With respect to any Participant who was providing services as an Employee, member of the Board or Consultant, if such Participant has a Termination of Employment, Termination of Directorship or Termination of Consultancy in contemplation of a Change in Control, by the Company, any Parent or Subsidiary or any Successor Entity without Cause (other than due to the Participant's death or Disability) or due to a resignation by the Participant for Good Reason, in either case, within the sixty (60) days prior to the consummation of a Change in Control, any Awards held by such Participant shall become exercisable and/or payable, as applicable, and the forfeiture, repurchase and other restrictions on such Awards shall lapse in their entirety immediately prior to such Change in Control and such Awards shall be exercisable for the longer of twelve (12) months following such Change in Control or the expiration of any applicable underwriters' lock-up agreements and thereafter shall terminate, but such period shall not extend beyond the expiration date of such Awards; provided, however, that in the event such termination is due to a resignation by the Participant for Good Reason pursuant to Sections 2.19(a) or (b) above, each Award held by such Participant shall become exercisable and/or payable, as applicable, and the forfeiture, repurchase and other restrictions on each such Award shall lapse in accordance with the

schedule set forth in Section 12.2(f) below (rather than in its entirety) immediately prior to such Change in Control, and each such Award shall thereafter continue to vest in accordance with its terms (with any remaining vesting installments reduced pro rata)."

2. Section 12.2(c). Section 12.2(c) of the Plan is hereby deleted and replaced in its entirety with the following:

"With respect to any Participant who was providing services as an Employee, member of the Board or Consultant immediately prior to the consummation of a Change in Control, if such Participant has a Termination of Employment, Termination of Directorship or Termination of Consultancy by the Company, any Parent or Subsidiary or any Successor Entity without Cause (other than due to the Participant's death or Disability) or due to a resignation by the Participant for Good Reason, in either case, within the thirteen (13) months following such Change in Control, any Awards held by such Participant shall become exercisable and/or payable, as applicable, and the forfeiture, repurchase and other restrictions on such Awards shall lapse in their entirety on the date of such Termination of Employment, Termination of Directorship or Termination of Consultancy and such Awards shall be exercisable for the longer of twelve (12) months following such Change in Control or the expiration of any applicable underwriters' lock-up agreements and thereafter shall terminate, but such period shall not extend beyond the expiration date of such Awards; provided, however, that in the event such termination is due to a resignation by the Participant for Good Reason pursuant to Sections 2.19(a) or (b) above, each Award held by such Participant shall become exercisable and/or payable, as applicable, and the forfeiture, repurchase and other restrictions on each such Award shall lapse in accordance with the schedule set forth in Section 12.2(f) below (rather than in its entirety) on the date of such Termination of Employment, Termination of Directorship or Termination of Consultancy, and each such Award shall thereafter continue to vest in accordance with its terms (with any remaining vesting installments reduced pro rata)."

3. Section 12.2(d). Section 12.2(d) of the Plan is hereby deleted and replaced in its entirety with the following:

"With respect to any Participant who was providing services as an Employee, member of the Board or Consultant immediately prior to the consummation of a Change in Control, if such Participant does not have a Termination of Employment, Termination of Directorship or Termination of Consultancy prior to thirteen (13) months after such Change in Control, each Award held by such Participant shall become exercisable and/or payable, as applicable, and the forfeiture, repurchase and other restrictions on each such Award shall lapse at the end of such thirteen (13) month period in accordance with the schedule set forth in Section 12.2(f) below, and each such Award shall thereafter continue to vest in accordance with its terms (with any remaining vesting installments reduced pro rata). In addition, each such Award shall remain exercisable until the later of (i) the twelve (12) month anniversary following the end of such thirteen (13) month period or (ii) the expiration of such Award as set forth in the applicable Award Agreement; provided, however, that exercise period for any Award shall not extend beyond the expiration of the maximum term of such Award."

4. Section 12.2(f). Section 12.2(f) of the Plan is hereby deleted and replaced in its entirety with the following:

"Except as otherwise expressly set forth in Sections 12.2(b) and (c) above, Awards shall become exercisable and/or payable, as applicable, and the forfeiture, repurchase and other restrictions on each such Award shall lapse pursuant to Sections 12.2(b), (c) and (d) above in accordance with the length of service a Participant has with the Company, or any Parent or Subsidiary (or any predecessor organization), or any Successor Entity as of the date of determination (measured from the Participant's date of hire) as set forth below and such Awards shall continue to vest after such acceleration of vesting in accordance with their terms (with any remaining vesting installments reduced pro rata).

Length of Service	**Percentage of each Award to Become Exercisable and/or Payable and Percentage of each Award as to which Forfeiture, Repurchase and Other Restrictions Shall Lapse**
0-180 days	0%
181 days to 1 year	25%
1 year to 1 day and 2 years	50%
Greater than 2 years	100%

5. This Amendment shall be and, as of the Effective Date, is hereby incorporated in and forms a part of the Plan.

6. In the event the Merger Agreement is terminated prior to consummation of the Merger, this Amendment shall automatically and without further action terminate.

7. Except as expressly provided herein, all terms and conditions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, the Board has caused this Amendment to be executed by a duly authorized officer of the Company as of the 11th day of April, 2014.

QUESTCOR PHARMACEUTICALS, INC.

By: /s/ Michael H. Mulroy
Name: Michael H. Mulroy
Title: Executive Vice President - Strategic Affairs and General Counsel

Exhibit 10.2

AMENDMENT

This AMENDMENT (the "Amendment"), dated as of April 6, 2014, is made and entered into by and between Questcor Pharmaceuticals, Inc., a California corporation (the "Company"), and Michael Mulroy (the "Executive").

RECITALS

WHEREAS, the Company, Mallinckrodt plc, an Irish public limited company and Quincy Merger Sub, Inc. a Delaware corporation (the "Merger Sub"), have entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Merger Sub will merge with and into the Company, with the Company as the surviving corporation of such merger (the "Merger");

WHEREAS, the Company and the Executive are parties to a Severance Agreement, dated as of January 3, 2011 (the "Agreement"); and

WHEREAS, in connection with the Merger, the Company and the Executive desire to enter into this Amendment with respect to the effect of the Merger under the Agreement.

AMENDMENT

The parties hereto hereby amend the Agreement as follows, effective as of the date on which the Merger Agreement is entered into (the "***Effective Date***").

1. The definition of "Good Reason" in the Agreement is hereby deleted and replaced in its entirety with the following:

> ""**Good Reason**" shall mean the occurrence of any one or more of the following events which occurs during the period beginning sixty (60) days prior to the date of a Change in Control and ending one (1) year after the date of such Change in Control:
>
> (1) Without the Executive's written consent, assignment to the Executive of any duties inconsistent in any material respect with the Executive's duties or responsibilities as in effect immediately prior to the Change in Control;
>
> (2) Without the Executive's written consent, a material change in the geographic location at which the Executive must perform services to a location which is more than 50 miles from the Executive's principal place of business immediately preceding the Change in Control; or
>
> (3) Without the Executive's written consent, a material reduction in the Executive's base salary compensation opportunity as in effect immediately prior to the Change in Control.
>
> Notwithstanding the foregoing, the Executive shall be considered to have a Good Reason only if (x) the Executive provides written notice to the Company specifying in reasonable detail the event upon which the Executive is basing such Good Reason within ninety (90) days after the occurrence of such event, (y) the Company fails to cure such event within

thirty (30) days after its receipt of such notice, and (z) the Executive terminates employment within sixty (60) days after the expiration of such cure period."

2. The Agreement is hereby amended by adding the following to the Agreement:

"Certain Additional Payments by the Company.

(a) Gross-Up Payment. If it shall be determined that any Payment (as defined below) would be subject to the Excise Tax (as defined below), then the Executive shall be entitled to receive an additional payment (the "**Gross-Up Payment**") in an amount such that, after payment by the Executive of all taxes (and any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, but excluding any income taxes and penalties imposed pursuant to Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**"), the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. The Company's obligation to make Gross-Up Payments under this Section shall not be conditioned upon the Executive's termination of employment.

(b) Determinations. Subject to the provisions of subsection (c) below, all determinations required to be made under this Section, including whether and when a Gross-Up Payment is required, the amount of such Gross-Up Payment, and the assumptions to be utilized in arriving at such determination, shall be made by PricewaterhouseCoopers LLP or such other nationally recognized certified public accounting firm as may be designated by the Executive (the "**Accounting Firm**"). The Accounting Firm shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity, or group effecting the change of control, the Executive may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments that will not have been made by the Company should have been made (the "**Underpayment**"), consistent with the calculations required to be made hereunder. In the event the Company exhausts its remedies pursuant to subsection (c) below and the Executive thereafter is required to make a payment of any Excise

Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) Claims by the IRS. The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable, but no later than 10 business days after the Executive is informed in writing of such claim. The Executive shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which the Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that the Company desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest, and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this subsection (c), the Company shall control all proceedings taken in connection with such contest, and, at its sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings, and conferences with the applicable taxing authority in respect of such claim and may, at its sole discretion, either pay the tax claimed to the appropriate taxing authority on behalf of the Executive and direct the Executive to sue for a refund or to contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction, and in one or more appellate courts, as

the Company shall determine; provided, however, that, if the Company pays such claim and directs the Executive to sue for a refund, the Company shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties) imposed with respect to such payment or with respect to any imputed income in connection with such payment; and provided, further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) Refunds. If, after the receipt by the Executive of a Gross-Up Payment or payment by the Company of an amount on the Executive's behalf pursuant to subsection (c) above, the Executive becomes entitled to receive any refund with respect to the Excise Tax to which such Gross-Up Payment relates or with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of subsection (c) above, if applicable) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after payment by the Company of an amount on the Executive's behalf pursuant to subsection (c) above, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then the amount of such payment shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

(e) Payment of the Gross-Up Payment. Any Gross-Up Payment, as determined pursuant to this Section, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination; provided that the Gross-Up Payment shall in all events be paid no later than the end of the Executive's taxable year next following the Executive's taxable year in which the Excise Tax (and any income or other related taxes or interest or penalties thereon) on a Payment are remitted to the Internal Revenue Service or any other applicable taxing authority or, in the case of amounts relating to a claim described in subsection (c) above that does not result in the remittance of any federal, state, local, and foreign income, excise, social security, and other taxes, the calendar year in which the claim is finally settled or otherwise resolved. Notwithstanding any other provision of this Section, the Company may, in its sole discretion, withhold and pay over to the Internal Revenue Service or any other applicable taxing authority, for the

benefit of the Executive, all or any portion of any Gross-Up Payment, and the Executive hereby consents to such withholding.

(f) Certain Definitions. The following terms shall have the following meanings for purposes of this Agreement:

(i) "**Excise Tax**" shall mean the excise tax imposed by Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.

(ii) The "**Parachute Value**" of a Payment shall mean the present value as of the date of the change of control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a "parachute payment" under Code Section 280G(b)(2), as determined by the Accounting Firm for purposes of determining whether and to what extent the Excise Tax will apply to such Payment.

(iii) A "**Payment**" shall mean any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable pursuant to this Agreement or otherwise."

3. To the extent applicable, the Agreement shall be deemed amended to the extent necessary to effectuate the provisions and intent of this Amendment, and such amendments shall be incorporated in and form a part of such agreements.

4. In the event the Merger Agreement is terminated prior to consummation of the Merger, this Amendment shall automatically and without further action terminate.

5. This Agreement shall be administered, interpreted and enforced under the internal laws of the State of California without regard to the principles of conflicts of laws thereof.

6. If any provision of this Amendment is determined to be invalid or unenforceable, it shall be adjusted rather than voided, to achieve the intent of the parties to the extent possible, and the remainder of the Amendment shall be enforced to the maximum extent possible.

7. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same instrument. The parties hereto agree to accept a signed facsimile copy of this Amendment as a fully binding original.

(Signature page follows)

IN WITNESS WHEREOF, this Amendment has been executed and delivered by the parties hereto.

QUESTCOR PHARMACEUTICALS, INC.,
a California corporation

By: /s/ Don M. Bailey
Name: Don M. Bailey
Title: President and CEO

EXECUTIVE

/s/ Michael H. Mulroy
Michael H. Mulroy

Exhibit 10.3

AMENDMENT

This AMENDMENT (the "Amendment"), dated as of May 13, 2014, is made and entered into by and between Questcor Pharmaceuticals, Inc., a California corporation (the "Company"), and Rajesh Asarpota (the "Executive").

RECITALS

WHEREAS, the Company, Mallinckrodt plc, an Irish public limited company and Quincy Merger Sub, Inc. a Delaware corporation (the "Merger Sub"), have entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Merger Sub will merge with and into the Company, with the Company as the surviving corporation of such merger (the "Merger");

WHEREAS, the Company and the Executive are parties to a Severance Agreement, dated as of February 17, 2014 (the "Agreement"); and

WHEREAS, in connection with the Merger, the Company and the Executive desire to enter into this Amendment with respect to the effect of the Merger under the Agreement.

AMENDMENT

The parties hereto hereby amend the Agreement as follows, effective as of the date on which the Merger Agreement is entered into (the "Effective Date").

1. The definition of "Good Reason" in the Agreement is hereby deleted and replaced in its entirety with the following:

    ""**Good Reason**" shall mean the occurrence of any one or more of the following events:

    (1) Without the Executive's written consent, assignment to the Executive of any duties inconsistent in any material respect with the Executive's duties or responsibilities;

    (2) Without the Executive's written consent, a material change in the geographic location at which the Executive must perform services to a location which is more than 50 miles from the Executive's principal place of business; or

    (3) Without the Executive's written consent, a material reduction in the Executive's base salary compensation opportunity.

    Notwithstanding the foregoing, the Executive shall be considered to have a Good Reason only if (x) the Executive provides written notice to the Company specifying in reasonable detail the event upon which the Executive is basing such Good Reason within ninety (90) days after the occurrence of such event, (y) the Company fails to cure such event within thirty (30) days after its receipt of such notice, and (z) the Executive terminates employment within sixty (60) days after the expiration of such cure period. In addition, notwithstanding anything to the contrary contained herein, in order to receive severance payments and/or benefits upon a termination of employment for Good Reason in connection with a Change in Control, the event(s) constituting Good Reason must occur

during the period beginning sixty (60) days prior to the date of a Change in Control and ending one (1) year after the date of such Change in Control."

2. The Agreement is hereby amended by adding the following to the Agreement:

"Certain Additional Payments by the Company.

(a) Gross-Up Payment. If it shall be determined that any Payment (as defined below) would be subject to the Excise Tax (as defined below), then the Executive shall be entitled to receive an additional payment (the "**Gross-Up Payment**") in an amount such that, after payment by the Executive of all taxes (and any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, but excluding any income taxes and penalties imposed pursuant to Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**"), the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. The Company's obligation to make Gross-Up Payments under this Section shall not be conditioned upon the Executive's termination of employment.

(b) Determinations. Subject to the provisions of subsection (c) below, all determinations required to be made under this Section, including whether and when a Gross-Up Payment is required, the amount of such Gross-Up Payment, and the assumptions to be utilized in arriving at such determination, shall be made by PricewaterhouseCoopers LLP or such other nationally recognized certified public accounting firm as may be designated by the Executive (the "**Accounting Firm**"). The Accounting Firm shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity, or group effecting the change of control, the Executive may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments that will not have been made by the Company should have been made (the "**Underpayment**"), consistent with the calculations required to be made hereunder. In the event the Company exhausts its remedies pursuant to subsection (c) below and the Executive thereafter is required to make a payment of any Excise

Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) Claims by the IRS. The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable, but no later than 10 business days after the Executive is informed in writing of such claim. The Executive shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which the Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that the Company desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest, and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this subsection (c), the Company shall control all proceedings taken in connection with such contest, and, at its sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings, and conferences with the applicable taxing authority in respect of such claim and may, at its sole discretion, either pay the tax claimed to the appropriate taxing authority on behalf of the Executive and direct the Executive to sue for a refund or to contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction, and in one or more appellate courts, as

the Company shall determine; provided, however, that, if the Company pays such claim and directs the Executive to sue for a refund, the Company shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties) imposed with respect to such payment or with respect to any imputed income in connection with such payment; and provided, further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) Refunds. If, after the receipt by the Executive of a Gross-Up Payment or payment by the Company of an amount on the Executive's behalf pursuant to subsection (c) above, the Executive becomes entitled to receive any refund with respect to the Excise Tax to which such Gross-Up Payment relates or with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of subsection (c) above, if applicable) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after payment by the Company of an amount on the Executive's behalf pursuant to subsection (c) above, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then the amount of such payment shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

(e) Payment of the Gross-Up Payment. Any Gross-Up Payment, as determined pursuant to this Section, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination; provided that the Gross-Up Payment shall in all events be paid no later than the end of the Executive's taxable year next following the Executive's taxable year in which the Excise Tax (and any income or other related taxes or interest or penalties thereon) on a Payment are remitted to the Internal Revenue Service or any other applicable taxing authority or, in the case of amounts relating to a claim described in subsection (c) above that does not result in the remittance of any federal, state, local, and foreign income, excise, social security, and other taxes, the calendar year in which the claim is finally settled or otherwise resolved. Notwithstanding any other provision of this Section, the Company may, in its sole discretion, withhold and pay over to the Internal Revenue Service or any other applicable taxing authority, for the

benefit of the Executive, all or any portion of any Gross-Up Payment, and the Executive hereby consents to such withholding.

(f) Certain Definitions. The following terms shall have the following meanings for purposes of this Agreement:

(i) "**Excise Tax**" shall mean the excise tax imposed by Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.

(ii) The "**Parachute Value**" of a Payment shall mean the present value as of the date of the change of control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a "parachute payment" under Code Section 280G(b)(2), as determined by the Accounting Firm for purposes of determining whether and to what extent the Excise Tax will apply to such Payment.

(iii) A "**Payment**" shall mean any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable pursuant to this Agreement or otherwise."

3. To the extent applicable, the Agreement shall be deemed amended to the extent necessary to effectuate the provisions and intent of this Amendment, and such amendments shall be incorporated in and form a part of such agreements.

4. In the event the Merger Agreement is terminated prior to consummation of the Merger, this Amendment shall automatically and without further action terminate.

5. This Amendment shall be administered, interpreted and enforced under the internal laws of the State of California without regard to the principles of conflicts of laws thereof.

6. If any provision of this Amendment is determined to be invalid or unenforceable, it shall be adjusted rather than voided, to achieve the intent of the parties to the extent possible, and the remainder of the Amendment shall be enforced to the maximum extent possible.

7. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same instrument. The parties hereto agree to accept a signed facsimile copy of this Amendment as a fully binding original.

(Signature page follows)

IN WITNESS WHEREOF, this Amendment has been executed and delivered by the parties hereto.

QUESTCOR PHARMACEUTICALS, INC.,
a California corporation

By: /s/ Don M. Bailey
Name: Don M. Bailey
Title: President and CEO

EXECUTIVE

/S/ Rajesh Asarpota
Rajesh Asarpota

Exhibit 10.4

AMENDMENT

This AMENDMENT (the "Amendment"), dated as of May 28, 2014, is made and entered into by and between Questcor Pharmaceuticals, Inc., a California corporation (the "Company"), and Don M. Bailey (the "Executive").

RECITALS

WHEREAS, the Company, Mallinckrodt plc, an Irish public limited company and Quincy Merger Sub, Inc. a Delaware corporation (the "Merger Sub"), have entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Merger Sub will merge with and into the Company, with the Company as the surviving corporation of such merger (the "Merger");

WHEREAS, the Company and the Executive are parties to an Amended and Restated Employment Agreement, dated as of December 19, 2008, as amended (the "Agreement"); and

WHEREAS, in connection with the Merger, the Company and the Executive desire to enter into this Amendment with respect to the effect of the Merger under the Agreement.

AMENDMENT

The parties hereto hereby amend the Agreement as follows, effective as of the date on which the Merger Agreement is entered into (the "Effective Date").

1. The definition of "Good Reason" in the Agreement is hereby deleted and replaced in its entirety with the following:

    ""**Good Reason**" shall mean the occurrence of any one or more of the following events:

    (1) Without the Executive's written consent, assignment to the Executive of any duties inconsistent in any material respect with the Executive's duties or responsibilities;

    (2) Without the Executive's written consent, a material change in the geographic location at which the Executive must perform services to a location which is more than 50 miles from the Executive's principal place of business; or

    (3) Without the Executive's written consent, a material reduction in the Executive's base salary compensation opportunity.

    Notwithstanding the foregoing, the Executive shall be considered to have a Good Reason only if (x) the Executive provides written notice to the Company specifying in reasonable detail the event upon which the Executive is basing such Good Reason within ninety (90) days after the occurrence of such event, (y) the Company fails to cure such event within thirty (30) days after its receipt of such notice, and (z) the Executive terminates employment within sixty (60) days after the expiration of such cure period. In addition, notwithstanding anything to the contrary contained herein, in order to receive severance payments and/or benefits upon a termination of employment for Good Reason in connection with a Change in Control, the event(s) constituting Good Reason must occur

during the period beginning sixty (60) days prior to the date of a Change in Control and ending one (1) year after the date of such Change in Control."

2. To the extent applicable, the Agreement shall be deemed amended to the extent necessary to effectuate the provisions and intent of this Amendment, and such amendments shall be incorporated in and form a part of such agreements.

3. In the event the Merger Agreement is terminated prior to consummation of the Merger, this Amendment shall automatically and without further action terminate.

4. This Amendment shall be administered, interpreted and enforced under the internal laws of the State of California without regard to the principles of conflicts of laws thereof.

5. If any provision of this Amendment is determined to be invalid or unenforceable, it shall be adjusted rather than voided, to achieve the intent of the parties to the extent possible, and the remainder of the Amendment shall be enforced to the maximum extent possible.

6. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same instrument. The parties hereto agree to accept a signed facsimile copy of this Amendment as a fully binding original.

(Signature page follows)

IN WITNESS WHEREOF, this Amendment has been executed and delivered by the parties hereto.

QUESTCOR PHARMACEUTICALS,
a California corporation

By: /s/ Virgil Thompson
Name: Virgil Thompson
Title: Chairman of the Board

EXECUTIVE

/s/ Don M. Bailey
Don M. Bailey

Exhibit 10.5

AMENDMENT

This AMENDMENT (the "Amendment"), dated as of May 16, 2014, is made and entered into by and between Questcor Pharmaceuticals, Inc., a California corporation (the "Company"), and Stephen Cartt (the "Executive").

RECITALS

WHEREAS, the Company, Mallinckrodt plc, an Irish public limited company and Quincy Merger Sub, Inc. a Delaware corporation (the "Merger Sub"), have entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Merger Sub will merge with and into the Company, with the Company as the surviving corporation of such merger (the "Merger");

WHEREAS, the Company and the Executive are parties to (i) an Offer of Employment letter agreement, dated March 7, 2005, as amended (the "Employment Agreement") and (ii) a Change in Control letter agreement, dated as of March 8, 2005, as amended (the "CIC Agreement" and, collectively with the Employment Agreement, the "Agreements"); and

WHEREAS, in connection with the Merger, the Company and the Executive desire to enter into this Amendment with respect to the effect of the Merger under each Agreement.

AMENDMENT

The parties hereto hereby amend each Agreement as follows, effective as of the date on which the Merger Agreement is entered into (the "Effective Date").

1. The definition of "Good Reason" in each Agreement is hereby deleted and replaced in its entirety with the following:

    ""**Good Reason**" shall mean the occurrence of any one or more of the following events:

    (1) Without the Executive's written consent, assignment to the Executive of any duties inconsistent in any material respect with the Executive's duties or responsibilities;

    (2) Without the Executive's written consent, a material change in the geographic location at which the Executive must perform services to a location which is more than 50 miles from the Executive's principal place of business; or

    (3) Without the Executive's written consent, a material reduction in the Executive's base salary compensation opportunity.

    Notwithstanding the foregoing, the Executive shall be considered to have a Good Reason only if (x) the Executive provides written notice to the Company specifying in reasonable detail the event upon which the Executive is basing such Good Reason within ninety (90) days after the occurrence of such event, (y) the Company fails to cure such event within thirty (30) days after its receipt of such notice, and (z) the Executive terminates employment within sixty (60) days after the expiration of such cure period. In addition, notwithstanding anything to the contrary contained herein, in order to receive severance

payments and/or benefits upon a termination of employment for Good Reason in connection with a Change in Control, the event(s) constituting Good Reason must occur during the period beginning sixty (60) days prior to the date of a Change in Control and ending one (1) year after the date of such Change in Control."

2. To the extent applicable, each Agreement shall be deemed amended to the extent necessary to effectuate the provisions and intent of this Amendment, and such amendments shall be incorporated in and form a part of such agreements.

3. In the event the Merger Agreement is terminated prior to consummation of the Merger, this Amendment shall automatically and without further action terminate.

4. This Amendment shall be administered, interpreted and enforced under the internal laws of the State of California without regard to the principles of conflicts of laws thereof.

5. If any provision of this Amendment is determined to be invalid or unenforceable, it shall be adjusted rather than voided, to achieve the intent of the parties to the extent possible, and the remainder of the Amendment shall be enforced to the maximum extent possible.

6. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same instrument. The parties hereto agree to accept a signed facsimile copy of this Amendment as a fully binding original.

(Signature page follows)

IN WITNESS WHEREOF, this Amendment has been executed and delivered by the parties hereto.

QUESTCOR PHARMACEUTICALS,
a California corporation

By: /s/ Don M. Bailey
Name: Don M. Bailey
Title: President and CEO

EXECUTIVE

/s/ Stephen Cartt
Stephen Cartt

Exhibit 10.6

AMENDMENT

This AMENDMENT (the "Amendment"), dated as of May 19, 2014, is made and entered into by and between Questcor Pharmaceuticals, Inc., a California corporation (the "Company"), and David Medeiros (the "Executive").

RECITALS

WHEREAS, the Company, Mallinckrodt plc, an Irish public limited company and Quincy Merger Sub, Inc. a Delaware corporation (the "Merger Sub"), have entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Merger Sub will merge with and into the Company, with the Company as the surviving corporation of such merger (the "Merger");

WHEREAS, the Company and the Executive are parties to (i) a Severance Agreement dated July 16, 2007, as amended (the "Severance Agreement") and (ii) a Change in Control Letter Agreement, dated as of February 13, 2007, as amended (the "CIC Agreement" and, collectively with the Severance Agreement, the "Agreements"); and

WHEREAS, in connection with the Merger, the Company and the Executive desire to enter into this Amendment with respect to the effect of the Merger under each Agreement.

AMENDMENT

The parties hereto hereby amend each Agreement as follows, effective as of the date on which the Merger Agreement is entered into (the "Effective Date").

1. The definition of "Good Reason" in each Agreement is hereby deleted and replaced in its entirety with the following:

    ""**Good Reason**" shall mean the occurrence of any one or more of the following events:

    (1) Without the Executive's written consent, assignment to the Executive of any duties inconsistent in any material respect with the Executive's duties or responsibilities;

    (2) Without the Executive's written consent, a material change in the geographic location at which the Executive must perform services to a location which is more than 50 miles from the Executive's principal place of business; or

    (3) Without the Executive's written consent, a material reduction in the Executive's base salary compensation opportunity.

    Notwithstanding the foregoing, the Executive shall be considered to have a Good Reason only if (x) the Executive provides written notice to the Company specifying in reasonable detail the event upon which the Executive is basing such Good Reason within ninety (90) days after the occurrence of such event, (y) the Company fails to cure such event within thirty (30) days after its receipt of such notice, and (z) the Executive terminates employment within sixty (60) days after the expiration of such cure period. In addition, notwithstanding anything to the contrary contained herein, in order to receive severance

payments and/or benefits upon a termination of employment for Good Reason in connection with a Change in Control, the event(s) constituting Good Reason must occur during the period beginning sixty (60) days prior to the date of a Change in Control and ending one (1) year after the date of such Change in Control."

2. To the extent applicable, each Agreement shall be deemed amended to the extent necessary to effectuate the provisions and intent of this Amendment, and such amendments shall be incorporated in and form a part of such agreements.

3. In the event the Merger Agreement is terminated prior to consummation of the Merger, this Amendment shall automatically and without further action terminate.

4. This Amendment shall be administered, interpreted and enforced under the internal laws of the State of California without regard to the principles of conflicts of laws thereof.

5. If any provision of this Amendment is determined to be invalid or unenforceable, it shall be adjusted rather than voided, to achieve the intent of the parties to the extent possible, and the remainder of the Amendment shall be enforced to the maximum extent possible.

6. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same instrument. The parties hereto agree to accept a signed facsimile copy of this Amendment as a fully binding original.

(Signature page follows)

IN WITNESS WHEREOF, this Amendment has been executed and delivered by the parties hereto.

QUESTCOR PHARMACEUTICALS,
a California corporation

By: /s/ Don M. Bailey
Name: Don M. Bailey
Title: President and CEO

EXECUTIVE

/s/ David Medeiros
David Medeiros

Exhibit 10.7

AMENDMENT

This AMENDMENT (the "Amendment"), dated as of May 23, 2014, is made and entered into by and between Questcor Pharmaceuticals, Inc., a California corporation (the "Company"), and David Young (the "Executive").

RECITALS

WHEREAS, the Company, Mallinckrodt plc, an Irish public limited company and Quincy Merger Sub, Inc. a Delaware corporation (the "Merger Sub"), have entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Merger Sub will merge with and into the Company, with the Company as the surviving corporation of such merger (the "Merger");

WHEREAS, the Company and the Executive are parties to a Severance Agreement, dated as of October 19, 2009 (the "Agreement"); and

WHEREAS, in connection with the Merger, the Company and the Executive desire to enter into this Amendment with respect to the effect of the Merger under the Agreement.

AMENDMENT

The parties hereto hereby amend the Agreement as follows, effective as of the date on which the Merger Agreement is entered into (the "Effective Date").

1. The definition of "Good Reason" in the Agreement is hereby deleted and replaced in its entirety with the following:

    ""**Good Reason**" shall mean the occurrence of any one or more of the following events:

    (1) Without the Executive's written consent, assignment to the Executive of any duties inconsistent in any material respect with the Executive's duties or responsibilities;

    (2) Without the Executive's written consent, a material change in the geographic location at which the Executive must perform services to a location which is more than 50 miles from the Executive's principal place of business; or

    (3) Without the Executive's written consent, a material reduction in the Executive's base salary compensation opportunity.

    Notwithstanding the foregoing, the Executive shall be considered to have a Good Reason only if (x) the Executive provides written notice to the Company specifying in reasonable detail the event upon which the Executive is basing such Good Reason within ninety (90) days after the occurrence of such event, (y) the Company fails to cure such event within thirty (30) days after its receipt of such notice, and (z) the Executive terminates employment within sixty (60) days after the expiration of such cure period. In addition, notwithstanding anything to the contrary contained herein, in order to receive severance payments and/or benefits upon a termination of employment for Good Reason in connection with a Change in Control, the event(s) constituting Good Reason must occur

during the period beginning sixty (60) days prior to the date of a Change in Control and ending one (1) year after the date of such Change in Control."

2. To the extent applicable, the Agreement shall be deemed amended to the extent necessary to effectuate the provisions and intent of this Amendment, and such amendments shall be incorporated in and form a part of such agreements.

3. In the event the Merger Agreement is terminated prior to consummation of the Merger, this Amendment shall automatically and without further action terminate.

4. This Amendment shall be administered, interpreted and enforced under the internal laws of the State of California without regard to the principles of conflicts of laws thereof.

5. If any provision of this Amendment is determined to be invalid or unenforceable, it shall be adjusted rather than voided, to achieve the intent of the parties to the extent possible, and the remainder of the Amendment shall be enforced to the maximum extent possible.

6. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same instrument. The parties hereto agree to accept a signed facsimile copy of this Amendment as a fully binding original.

(Signature page follows)

IN WITNESS WHEREOF, this Amendment has been executed and delivered by the parties hereto.

QUESTCOR PHARMACEUTICALS,
a California corporation

By: /s/ Don M. Bailey
Name: Don M. Bailey
Title: President and CEO

EXECUTIVE

/s/ David Young
David Young

Exhibit 31.1

CERTIFICATION

I, Don M. Bailey, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: July 25, 2014

/s/ Don M. Bailey

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

Exhibit 31.2

CERTIFICATION

I, Rajesh Asarpota, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: July 25, 2014

/s/ Rajesh Asarpota

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

Exhibit 32.1

CERTIFICATION

I, Don M. Bailey, hereby certify pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, that the Quarterly Report of Questcor Pharmaceuticals, Inc. on Form 10-Q for the quarterly period ended June 30, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q for the period ended June 30, 2014 fairly presents in all material respects the financial condition and results of operations of Questcor Pharmaceuticals, Inc.

July 25, 2014 /s/ Don M. Bailey

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

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

Exhibit 32.2

CERTIFICATION

I, Rajesh Asarpota, hereby certify pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, that the Quarterly Report of Questcor Pharmaceuticals, Inc. on Form 10-Q for the quarterly period ended June 30, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q for the period ended June 30, 2014 fairly presents in all material respects the financial condition and results of operations of Questcor Pharmaceuticals, Inc.

July 25, 2014 /s/ Rajesh Asarpota

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

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