Table of Contents

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 SEPTEMBER 30, 2003
OR

[ ] **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: 0-20772

QUESTCOR PHARMACEUTICALS, INC.

(Exact name of Registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether Registrant is an accelerated filer (as defined in Rule 12B-2 of the Act). Yes [ ] No [x]

At November 6, 2003 there were 44,379,058 shares of the Registrant's common stock, no par value per share, outstanding.

TABLE OF CONTENTS

QUESTCOR PHARMACEUTICALS, INC.

FORM 10-Q

TABLE OF CONTENTS

ITEM 1. FINANCIAL STATEMENTS

QUESTCOR PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARES)

	September 30, 2003 (Unaudited)	December 31, 2002 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,284	$ 6,156
Short-term investments	2,537	1,350
Accounts receivable, net of allowances of $75 at September 30, 2003 and $49 at December 31, 2002	2,144	1,590
Inventories, net	1,087	391
Prepaid expenses and other current assets	589	979
Total current assets	8,641	10,466
Property and equipment, net	657	585
Purchased technology, net	13,994	382
Goodwill and other indefinite lived intangible assets	479	479
Deposits and other assets	832	854
Total assets	$ 24,603	$ 12,766
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,025	$ 1,230
Accrued compensation	519	794
Other accrued liabilities	1,058	1,205
Payable relating to product acquisition	2,183	—
Short-term debt and current portion of long-term debt	153	218
Current portion of capital lease obligations	—	1
Total current liabilities	4,938	3,448
Convertible debentures, (face amount of $4,000), net of deemed discount of $721 at September 30, 2003 and $1,092 at December 31, 2002	3,279	2,908
Other non-current liabilities	928	833
Commitments and Contingencies		
Preferred stock, no par value, 7,500,000 shares authorized; 2,155,715 Series A shares issued and outstanding at September 30, 2003 and December 31, 2002 (aggregate liquidation preference of $10,000 at September 30, 2003 and December 31, 2002)	5,081	5,081
Stockholders' equity:		
Preferred stock, no par value, 10,000 Series B shares issued and outstanding at September 30, 2003, net of issuance costs (aggregate liquidation preference of $10,000 at September 30, 2003)	9,178	—
Common stock, no par value, 105,000,000 shares authorized; 44,342,808 and 38,676,592 shares issued and outstanding at September 30, 2003 and December 31, 2002, respectively	84,263	77,528
Deferred compensation	(20)	(22)
Accumulated deficit	(83,044)	(76,968)
Accumulated other comprehensive loss	—	(42)
Total stockholders' equity	10,377	496
Total liabilities and stockholders' equity	$ 24,603	$ 12,766

See accompanying notes.

QUESTCOR PHARMACEUTICALS, INC.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2003	September 30, 2002	September 30, 2003	September 30, 2002
Revenues:				
Net product sales	$ 3,943	$ 3,772	$ 9,185	$10,885
Grant and royalty revenue	24	26	58	158
Technology revenue	—	—	250	250
Services revenue from a related party	—	50	—	150
Total revenues	3,967	3,848	9,493	11,443
Operating costs and expenses:				
Cost of product sales	796	881	2,620	2,243
Selling, general and administrative	2,630	2,892	7,950	8,666
Research and development	590	582	1,912	1,692
Depreciation and amortization	441	262	822	921
Total operating costs and expenses	4,457	4,617	13,304	13,522
Loss from operations	(490)	(769)	(3,811)	(2,079)
Non-cash amortization of deemed discount on convertible debentures	(130)	(130)	(391)	(305)
Interest income (expense), net	(18)	(11)	(32)	3
Other income (expense), net	5	(151)	(75)	(261)
Rental income, net	57	66	194	212
Net loss	(576)	(995)	(4,115)	(2,430)
Non-cash deemed dividend related to beneficial conversion feature of Series B Preferred Stock	—	—	1,394	—
Dividends on Series B Preferred Stock	200	—	567	—
Net loss applicable to common stockholders	$ (776)	$ (995)	$ (6,076)	$ (2,430)
Shares used in computing basic and diluted net loss per share applicable to common stockholders	44,275	38,632	40,987	38,317
Basic and diluted net loss per share applicable to common stockholders	$ (0.02)	$ (0.03)	$ (0.15)	$ (0.06)

See accompanying notes.

QUESTCOR PHARMACEUTICALS, INC.

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

	Nine Months Ended	
	September 30, 2003	September 30, 2002
OPERATING ACTIVITIES		
Net loss	$ (4,115)	$ (2,430)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	40	311
Amortization of deemed discount on convertible debentures	391	305
Amortization of deferred compensation	44	—
Depreciation and amortization	822	921
Other-than-temporary loss on investment	51	367
Deferred rent expense	29	(77)
Loss on the sale of investments	14	—
(Gain)/loss on the sale of equipment, net	9	(37)
Changes in operating assets and liabilities:		
Accounts receivable	(554)	260
Inventories	(631)	(340)
Prepaid expenses and other current assets	366	(523)
Accounts payable	(205)	275
Accrued compensation	(275)	192
Other accrued liabilities	(147)	536
Other non-current liabilities	67	—
Net cash flows used in operating activities	(4,094)	(240)
INVESTING ACTIVITIES		
Purchase of property and equipment	(307)	(323)
Purchase of short-term investments	(3,029)	—
Acquisition of purchased technology	(12,113)	—
Proceeds from maturities and sales of short-term investments	1,818	—
Proceeds from sale of property and equipment	23	51
Decrease in other assets	2	142
Net cash flows used in investing activities	(13,606)	(130)
FINANCING ACTIVITIES		
Issuance of common stock, net of issuance costs	5,058	557
Issuance of Series B preferred stock and warrants, net of issuance costs	9,404	—
Issuance of convertible debentures	—	4,000
Short-term borrowings	465	1,172
Repayment of note payable to bank	—	(5,000)
Repayment of short-term and long-term debt	(531)	(1,296)
Payment of Series B preferred stock dividends	(567)	—
Repayments of capital lease obligations	(1)	(43)
Net cash flows provided by/(used in) financing activities	13,828	(610)
Decrease in cash and cash equivalents	(3,872)	(980)
Cash and cash equivalents at beginning of period	6,156	10,183
Cash and cash equivalents at end of period	$ 2,284	$ 9,203
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 250	$ 150
Amount payable relating to product acquisition	$ 2,183	$ —

See accompanying notes.

QUESTCOR PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED SEPTEMBER 30, 2003 FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION

Questcor Pharmaceuticals, Inc. (the "Company") is a specialty pharmaceutical company that acquires, develops, markets and sells brand name prescription drugs through a U.S. direct sales force and overseas distributors. The Company focuses on the treatment of conditions, including central nervous system ("CNS") diseases and gastroenterological disorders which are served by a concentrated group of physicians, such as neurologists and gastroenterologists. The Company's strategy is to acquire pharmaceutical products that it believes have sales growth potential, are promotionally responsive to a focused, targeted sales and marketing effort and complement the Company's existing products. In addition, through corporate collaborations, the Company intends to develop new patented intranasal formulations of previously FDA approved drugs. The Company currently markets five products in the U.S.: HP Acthar® Gel ("Acthar"), an injectable drug that is approved for the treatment of certain CNS disorders with an inflammatory component including the treatment of flares associated with Multiple Sclerosis ("MS") and is commonly used in treating patients with infantile spasm; Nascobal®, the only prescription nasal gel used for the treatment of various Vitamin B-12 deficiencies; Ethamolin®, an injectable drug used to treat enlarged weakened blood vessels at the entrance to the stomach that have recently bled, known as esophageal varices; Glofil®-125, which is an injectable agent that assesses how well the kidney is working by measuring glomerular filtration rate, or kidney function; and VSL#3™, a patented probiotic marketed as a dietary supplement to promote normal gastrointestinal function. Probiotics are living organisms in food and dietary supplements, which, upon ingestion in certain numbers, improve the health of the host beyond their inherent basic nutrition. Due to minimal demand and increasing production costs, the Company discontinued marketing and selling Inulin in Sodium Chloride on September 30, 2003. On June 17, 2003, the Company acquired Nascobal®, a nasal gel formulation of Cyanocobalamin USP (Vitamin B-12), from Nastech Pharmaceutical Company, Inc. ("Nastech"). The Company began distributing Nascobal in July 2003. The Company markets Nascobal for patients with severe deficiencies of Vitamin B-12 associated with MS and Crohn's Disease as these patients are at high risk of developing severe deficiencies of Vitamin B-12 due to a compromised ability to absorb Vitamin B-12 through the gastrointestinal system. In June 2002, the Company signed a license agreement with Fabre Kramer Pharmaceuticals, Inc., whereby Fabre Kramer will manage and provide funding for the clinical development programs for Hypnostat™ (an intranasal triazolam for the treatment of insomnia) and Panistat™ (an intranasal alprazolam for the treatment of panic disorders).

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States and applicable Securities and Exchange Commission regulations for interim financial information. These financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The unaudited financial statements should be read in conjunction with the audited financial statements and related footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, as filed on March 26, 2003 with the Securities and Exchange Commission. The accompanying balance sheet at December 31, 2002 has been derived from the audited financial statements at that date. In the opinion of the Company's management, all adjustments (consisting of normal recurring adjustments) considered necessary for the fair presentation of interim financial information have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. Certain amounts in the prior quarter's financial statements have been reclassified to conform with the current quarter's presentation. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

2. RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes new standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 on July 1, 2003 did not have a material impact on the Consolidated Financial Statements.

In November 2002, the Emerging Issues Task Force (or EITF) of the Financial Accounting Standards Board (or FASB) issued EITF 00-21, "Revenue Arrangements with Multiple Deliverables," which addresses certain aspects of the accounting for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. Under EITF 00-21, revenue arrangements with multiple deliverables should be divided into separate units of accounting if the deliverables meet certain criteria, including whether the fair value of the delivered items can be determined and whether there is evidence of fair value of the undelivered items. In addition, the consideration should be allocated among the separate units of accounting based on their fair values, and the applicable revenue recognition criteria should be considered separately for each of the separate units of accounting. EITF 00-21

is effective for revenue arrangements the Company enters into after June 30, 2003. The adoption of EITF 00-21 did not have a material impact on the Consolidated Financial Statements as of September 30, 2003. The Company will evaluate the impact of EITF 00-21 on future revenue arrangements it enters into.

3. STOCK-BASED COMPENSATION

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

Compensation expense for options granted to non-employees has been determined in accordance with SFAS 123 and EITF 96-18, "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in conjunction with Selling Goods or Services", as the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. Compensation expense for options granted to non-employees is periodically re-measured as the underlying options vest.

The following table illustrates the effect on net loss per common share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation (in thousands, except per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Net loss applicable to common stockholders as reported	$ (776)	$ (995)	$(6,076)	$(2,430)
Add: Stock-based employee compensation expense included in reported net loss	37	2	51	9
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards	(343)	(303)	(1,010)	(1,076)
Net loss applicable to common stockholders, pro forma	$(1,082)	$(1,296)	$(7,035)	$(3,497)
Basic and diluted net loss per share applicable to common stockholders:				
As reported	$ (0.02)	$ (0.03)	$ (0.15)	$ (0.06)
Pro forma	$ (0.02)	$ (0.03)	$ (0.17)	$ (0.09)

4. REVENUE RECOGNITION

Revenues from product sales of Acthar, Nascobal, Ethamolin, Glofil-125, Inulin and VSL#3 are recognized based upon shipping terms, net of estimated reserves for sales returns, government chargebacks, Medicaid rebates, and discounts. The Company discontinued marketing and selling Inulin in Sodium Chloride on September 30, 2003. Revenue is recognized upon shipment of product, provided the title to the products has been transferred at the point of shipment. If title of product transfers at point of receipt by the customer, revenue is recognized upon customer receipt of the shipment. The Company records estimated sales allowances against product revenues for expected returns, chargebacks, Medicaid rebates and discounts based on historical sales returns, chargebacks, and Medicaid rebates, analysis of return merchandise authorizations and other known factors such as shelf life of products, as required. The Company continually assesses the historical returns and other experience including customers' compliance with return goods policy and adjusts its allowances as appropriate. The Company's return policy allows customers to return expired product for exchange within six months beyond the expiration date. Effective August 12, 2002 the Company changed its return goods policy such that it no longer issues credit memorandums for returns. Rather, returns are exchanged for replacement product, and estimated costs for such exchanges, which include actual product material costs and related shipping charges, are included in "Cost of Product Sales." Returns are subject to quality assurance reviews prior to acceptance. The Company sells product to wholesalers, who in turn sell its products to pharmacies and hospitals. In the case of VSL#3, the Company sells directly to consumers. The Company does not require collateral from its customers.

Revenue earned under collaborative research agreements is recognized as the research services are performed. Amounts received in advance of services to be performed are recorded as deferred revenue until the services are performed.

The Company has received government grants that support the Company's research effort in specific research projects. These grants provide for reimbursement of approved costs incurred as defined in the various awards.

The Company has received payments in exchange for proprietary licenses related to technology and patents. The Company classifies these payments as "Technology Revenue." These payments are recognized as revenues upon receipt of cash and the transfer of intellectual property, data and other rights licensed, assuming no continuing material obligations exist.

Shipping and handling costs are included in "Cost of Product Sales."

5. NASCOBAL ACQUISITION

On June 17, 2003, the Company acquired Nascobal, a nasal gel formulation of Cyanocobalamin USP (Vitamin B-12), from Nastech. Under the terms of the Nascobal Asset Purchase Agreement, the Company made an initial cash payment of $9 million upon the closing of the acquisition, an additional cash payment of $3 million in the third quarter and is required to pay an additional $2.2 million payable on or before December 31, 2003. The $2.2 million payable is included in "Payable Relating to Product Acquisition" on the accompanying Condensed Consolidated Balance Sheet. As part of the acquisition, the Company is also acquiring rights to Nascobal nasal spray, an improved dosage form, for which a New Drug Application ("NDA") is expected to be filed by Nastech with the FDA before the end of 2003. Nastech retains a security interest in the patents, trademarks, and other intellectual property relating to Nascobal. Subject to the approval of the NDA for the new Nascobal nasal spray dosage form by the FDA, the Company is required to make a $2 million payment for the transfer of the NDA from Nastech to the Company. Further, subject to the approval of the NDA for the new Nascobal nasal spray dosage form and upon issuance of a pending U.S. patent for the new Nascobal nasal spray dosage form, the Company is required to make a second $2 million payment. The Company and Nastech have also entered into a long term supply agreement under which Nastech will continue to manufacture Nascobal for the Company at its FDA approved, cGMP manufacturing facility in Hauppauge, New York.

The Company accounted for the product acquisition as an asset purchase and allocated the purchase price based on the fair value of the assets acquired. Of the purchase cost of $14.3 million, which includes acquisition costs of $0.1 million, $14.2 million was attributed to Purchased technology, and $0.1 million to inventory. Purchased technology will be amortized over the estimated life of 15 years. Amortization expense was $276,000 for the three and nine month periods ended September 30, 2003. Amortization expense will be approximately $511,000 for 2003, approximately $949,000 per year from 2004 through 2017, and approximately $435,000 for 2018.

6. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The Company considers highly liquid investments with maturities from the date of purchase of three months or less to be cash equivalents. The Company had cash, cash equivalents and short-term investments of $4,821,000 and $7,506,000 at September 30, 2003, and December 31, 2002, respectively.

Following is a summary of investments, at fair value, based on quoted market prices for these investments (in thousands):

September 30, 2003	Gross Amortized Cost	Gross Unrealized Gain	Estimated Fair Value
Cash equivalents:			
Money market funds	$2,172	$ —	$2,172
	$2,172	$ —	$2,172
Short-term investments:			
Commercial paper	$ 250	$ —	$ 250
Corporate bonds	2,287	—	2,287
	$2,537	$ —	$2,537

December 31, 2002	Gross Amortized Cost	Gross Unrealized Loss	Estimated Fair Value
Cash equivalents:			
Money market funds	$5,400	$ —	$5,400
Commercial paper	499	—	499
	$5,899	$ —	$5,899
Short-term investments:			
Commercial paper	$ 498	$ —	$ 498
Corporate bonds	761	—	761
Corporate equity investments	133	(42)	91
	$1,392	$(42)	$1,350

In 2003, the Company recognized an other-than-temporary loss of $51,000 and a realized loss of $14,000 related to its Rigel equity investment. These amounts are included in “Other Income (Expense)” on the accompanying Consolidated Statement of Operations.

7. INVENTORIES

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

	September 30, 2003	December 31, 2002
Raw materials	$ 522	$ 70
Finished goods	850	397
Less allowance for excess and obsolete inventories	(285)	(76)
	$1,087	$391

8. INTANGIBLE ASSETS

Goodwill and assembled workforce no longer subject to amortization amounted to $479,000 at September 30, 2003 and December 31, 2002. In accordance with SFAS 141 and 142, the Company discontinued the amortization of goodwill on January 1, 2002. The Company performed an impairment test of goodwill as of January 1, 2003, which did not result in an impairment charge. The Company will continue to monitor the carrying value of goodwill through the annual impairment tests or more frequently if indicators of potential impairment exist. As of September 30, 2003, no indicators of potential impairment existed. No such impairment losses have been recorded to date.

Purchased technology at September 30, 2003 includes $14.2 million related to the Nascobal acquisition; see Note 4 – Nascobal Acquisition. The Nascobal purchased technology is being amortized over its estimated life of 15 years. The remaining purchased technology net balance of $39,000 at September 30, 2003 and $382,000 at December 31, 2002 is being amortized over the estimated sales life of the associated product (seven years) and will be amortized in full during the fourth quarter of 2003.

9. LINE OF CREDIT

In January 2002, the Company entered into a revolving accounts receivable line of credit with Pacific Business Funding, a division of Greater Bay Bancorp. Under the agreement, the Company can borrow up to the lesser of 80% of its eligible accounts receivable balance or $3,000,000. Interest accrues on outstanding advances at an annual rate equal to prime rate plus four and one-half percent. The term of the agreement is one year and the agreement automatically renews annually, unless terminated by the Company. There were no borrowings under this line of credit as of September 30, 2003. The line of credit is secured by a blanket lien on all assets including intellectual property. As of September 30, 2003, $1,346,000 was available for borrowing under the line of credit.

10. COMMITMENTS, INDEMNIFICATIONS AND CONTINGENCIES

The Company, as permitted under California law and in accordance with its Bylaws, indemnifies its officers and directors for certain events or occurrences while the officer or director is or was serving at the Company’s request in such capacity. The potential future indemnification limit is to the fullest extent permissible under California law; however, the Company has a director and officer insurance policy that limits its exposure and may enable it to recover a portion of any future amounts paid. The Company believes the fair value of these indemnification agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of September 30, 2003.

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

11. NET LOSS PER SHARE APPLICABLE TO COMMON STOCKHOLDERS

Basic and diluted net loss per share applicable to common stockholders is based on net loss applicable to common stockholders for the relevant period, divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share applicable to common stockholders gives effect to all potentially dilutive common shares outstanding during the period such as options, warrants, convertible preferred stock, and contingently issuable shares. Diluted net loss per share applicable to common stockholders has not been presented separately as, due to the Company’s net loss position, it is anti-dilutive.

Had the Company been in a net income position for the periods ended September 30, 2003, shares used in calculating diluted earnings per share applicable to common stockholders would have included the dilutive effect of an additional 9,743,336 stock options, 12,780,446 convertible preferred shares, 2,531,646 shares issuable upon conversion of debentures (if dilutive), placement unit options for 127,676 shares and 10,340,711 warrants.

12. EQUITY TRANSACTIONS

In March 2003, a warrant was exercised through a cashless exercise in accordance with the terms of the warrant, and 315,827 shares of common stock were issued.

In May 2003, the number of authorized shares of the Company's no par value common stock was increased from 75,000,000 to 105,000,000.

In May 2003, the Company's 2003 Employee Stock Purchase Plan was approved by shareholders. The Company has reserved 900,000 shares of common stock for issuance under the plan.

In May 2003, the aggregate number of shares of Common Stock authorized for issuance under the Company's 1992 Employee Stock Option Plan was increased by 1,000,000 shares, from 12,500,000 shares to 13,500,000 shares.

In June 2003, a warrant was exercised through a cashless exercise in accordance with the terms of the warrant, and 72,168 shares of common stock were issued.

On June 11, 2003, the Company consummated a private placement of its Common Stock and warrants to purchase Common Stock. The Company issued 4,979,360 shares of Common Stock in the private placement at $1.01 per share, which was the volume weighted average price of the Common Stock for the five days prior to and including the close of the private placement. Gross proceeds to the Company from the private placement were approximately $5 million. Net of issuance costs, the proceeds to the Company were $4.8 million.

The purchasers of the Common Stock also received for no additional consideration warrants exercisable for an aggregate of 2,987,616 shares of Common Stock at an exercise price of $1.26 per share, which represented a 25% premium to the volume weighted average price of the Common Stock for the five days prior to and including the close of the private placement. The warrants expire in June 2008.

13. SERIES B CONVERTIBLE PREFERRED STOCK

In January 2003, the Company completed a private placement of Series B Convertible Preferred Stock and warrants to purchase common stock to various investors. Gross proceeds to the Company from the private placement were $10 million. Net of issuance costs, the proceeds to the Company were $9.4 million.

The Series B Preferred Stock has an aggregate stated value of $10 million and each holder is entitled to a quarterly dividend at an initial rate of 8% per year, which rate will increase to 10% per year on and after January 1, 2006, and to 12% on and after January 1, 2008. The dividends are paid in cash on a quarterly basis. In addition, on the occurrence of designated events, including the failure to maintain Net Cash, Cash Equivalent and Eligible Investment Balances, as defined in the Company's Certificate of Determination of Series B Preferred Stock (the "Certificate of Determination"), of at least 50% of the aggregate stated value of the outstanding shares of Series B Preferred Stock, the dividend rate will increase by an additional 6% per year. The Series B Preferred Stock is entitled to a liquidation preference over the Company's common stock and Series A Preferred Stock upon a liquidation, dissolution or winding up of the Company. The Series B Preferred Stock is convertible at the option of the holder into the Company's common stock at a conversion price of $0.9412 per share, subject to certain anti-dilution adjustments. The Company has the right commencing on January 1, 2006 (assuming specified conditions are met) to redeem the Series B Preferred Stock at a price of 110% of stated value, together with all accrued and unpaid dividends and accrued interest. In addition, upon the occurrence of designated Optional Redemption Events (as defined below), the holders have the right to require the Company to redeem the Series B Preferred Stock at 100% of stated value, together with all accrued and unpaid dividends and interest. The Optional Redemption Events include any of the following:

- If the Company consolidates or merges with or into another entity where the shareholders of the Company do not own at least 51% of the surviving entity and such consolidation or merger is approved by the Company's Board of Directors;

- If the Company adopts any amendment to its Amended and Restated Articles of Incorporation which materially and adversely affects the rights of the holders of Series B Preferred Stock in respect of their interests in shares of Common Stock that can be

acquired upon conversion of shares of Series B Preferred Stock in a manner different and more adverse than it affects the rights of holders of Common Stock generally;

- If the Company fails to declare or pay dividends in full on the applicable dividend date, other than in circumstances where such declaration or payment would not be permitted by Section 500 or 501 of the California Corporations Code, or fails to pay certain redemption prices on any share of Series B Preferred Stock when due;

- If the Company fails to issue shares of Common Stock to any Series B holder upon conversion or upon exercise of warrants when due;

- If the Company commits certain breaches under, or otherwise violates certain terms of, the transaction documents entered into in connection with the issuance of the Series B Preferred Stock;

- If the Company's representations and warranties made in the transaction documents entered into in connection with the issuance of the Series B Preferred Stock are false or misleading in any material way when made or deemed made; and

- If the Company institutes a voluntary bankruptcy or similar proceeding;

The redemption events described above are all within the control of the Company. Therefore, in accordance with EITF Topic D-98, the Company has classified the Series B Preferred Stock in permanent equity. In addition, the Company initially recorded the Series B Preferred Stock at its fair value on the date of issuance. The Company has elected not to adjust the carrying value of the Series B Preferred Stock to the redemption value of such shares, since it is uncertain whether or when the redemption events described above will occur. Subsequent adjustments to increase the carrying value to the redemption value will be made when it becomes probable that such redemption will occur. As of September 30, 2003, the redemption value of the Series B Preferred Stock was $10 million.

The terms of the Series B Preferred Stock contain a variety of affirmative and restrictive covenants, including limitations on indebtedness and liens. Each share of Series B Preferred Stock is generally entitled to a number of votes equal to 0.875 times the number of shares of Common Stock issuable upon conversion of such share of Series B Preferred Stock. In addition, the Company agreed that two of the investors are each entitled to appoint a representative to attend Company Board of Directors meetings in a nonvoting observer capacity.

The purchasers of the Series B Preferred Stock also received for no additional consideration warrants exercisable for an aggregate of 3,399,911 shares of Common Stock at an exercise price of $1.0824 per share, subject to certain anti-dilution adjustments. The warrants expire in January 2007. The warrants issued to the Series B holders were assigned a value of $1,527,000 which decreased the carrying value of the preferred stock. The warrants were valued using the Black-Scholes method with the following assumptions: a risk free interest rate of 3%; an expiration date of January 15, 2007; volatility of 82% and a dividend yield of 0%. In connection with the issuance of the Series B Preferred Stock and warrants, the Company recorded $1,301,000 related to the beneficial conversion feature on the Series B Preferred Stock as a deemed dividend, which increased the carrying value of the preferred stock. A beneficial conversion feature is present because the effective conversion price of the Series B Preferred Stock was less than the fair value of the Common Stock on the commitment date. The deemed dividend increased the loss applicable to common stockholders in the calculation of basic and diluted net loss per common share.

On June 13, 2003, the Company entered into agreements with the holders of record of its Series B Preferred Stock, whereby the holders of Series B Preferred Stock waived certain covenants and rights to receive additional dividends as provided in the Certificate of Determination, which may have been triggered as a result of the Nascobal acquisition and the use of the Company's cash resources to pay the purchase price (the "Acquisition"). Specifically, the holders of Series B Preferred Stock waived their right to receive an additional aggregate six percent dividend in the event that the Acquisition resulted in the Company being unable to satisfy the test set forth in Sections 500 and 501 of the California Corporations Code to allow for the Company to redeem all of the issued and outstanding shares of Series B Preferred Stock. Such waiver was granted through the earlier of (i) December 31, 2003 and (ii) the date on which (A) the Company's assets (exclusive of goodwill, capitalized research, and development expenses and deferred charges) equal less than 125% of its liabilities (not including deferred taxes, deferred income and other deferred credits) or (B) the Company's current assets equal less than 80% of its current liabilities. Additionally, the holders of Series B Preferred Stock waived their right to receive an additional aggregate six percent dividend in the event that the Acquisition resulted in the Company being unable to maintain Net Cash, Cash Equivalents and Eligible Investment Balances (as defined in the Certificate of Determination) in an amount equal to $5 million. Such waiver was granted through the earlier of (i) December 31, 2003 and (ii) the date on which the Company fails to maintain Net Cash, Cash Equivalents and Eligible Investment Balances in an amount equal to at least $2.5 million. The holders of Series B Preferred Stock also agreed that: (i) the Acquisition would not constitute a breach of the covenant in the Certificate of Determination requiring the Company to use its best efforts to maintain compliance with Sections 500 and 501 of the California Corporations Code to be able to pay dividends on and to redeem all of the issued and outstanding shares of Series B Preferred Stock;

and (ii) the incurrence by the Company of contingent obligations to pay additional amounts to Nastech of $5,183,333 and the granting of a security interest in the acquired Nascobal product would not constitute a breach of the covenants in the Certificate of Determination restricting the Company's ability to incur indebtedness and create liens. In consideration of such agreements, the Company agreed to adjust the exercise price of warrants to purchase 3,399,911 shares of Common Stock previously issued by the Company to the holders of Series B Preferred Stock from $1.0824 per share to $0.9412 per share.

As a result of the decrease to the exercise price of the warrants, the Company revalued the warrants issued to the Series B Preferred Stockholders, resulting in an incremental value of $93,000 which decreased the carrying value of the preferred stock. The warrants were valued using the Black-Scholes method with the following assumptions: a risk free interest rate of 1.4%; an expiration date of January 15, 2007; volatility of 70% and a dividend yield of 0%. In connection with the revaluation, the Company recorded $93,000 related to the beneficial conversion feature on the Series B Preferred Stock as an additional deemed dividend, which increased the carrying value of the Series B Preferred Stock. The deemed dividend increased the net loss applicable to common stockholders in the calculation of basic and diluted net loss per common share applicable to common stockholders.

14. RELATED PARTY TRANSACTIONS

In December 2001, the Company entered into a promotion agreement with VSL Pharmaceuticals Inc. ("VSL"), a private company owned in part by the major shareholders of Sigma Tau. Sigma Tau beneficially owned approximately 34% of the Company's outstanding stock as of September 30, 2003. In June 2002, the Company signed an amendment to the promotion agreement. Under these agreements, the Company has agreed to purchase VSL#3 from VSL at a stated price, and has also agreed to promote, sell, warehouse and distribute the VSL#3 product direct to customers at its cost and expense, subject to certain expense reimbursements. Revenues from sales of VSL#3 are recognized when product is shipped to the customer. The Company does not accept returns of VSL#3. VSL#3 revenue for the quarter ending September 30, 2003 was $256,000 and is included in Net Product Sales. Included in Accounts Payable is $104,000 for amounts owed to VSL at September 30, 2003. An access fee to VSL is calculated quarterly, which varies based upon sales and costs incurred by the Company subject to reimbursement under certain circumstances. For the quarter ended September 30, 2003, the amount of the access fee was $36,000 and is included in Selling, General and Administrative expense in the accompanying Consolidated Statement of Operations. During the quarter ended September 30, 2003 the Company paid $91,000 to VSL for the purchase of VSL#3 product and access fees.

In January 2002, the Company entered into a royalty agreement with Glenridge Pharmaceuticals LLC ("Glenridge"). Kenneth R. Greathouse, the Company's former Vice President of Commercial Operations, is a part owner of Glenridge. This agreement calls for the payment of royalties on a quarterly basis on the net sales of Acthar®. The Company paid Glenridge $77,000 and $106,000 in the quarters ended September 30, 2003 and 2002, and $228,000 and $353,000 for the nine months ended September 30, 2003 and 2002, respectively, related to royalties on Acthar® sales. The Company has accrued $70,000 for royalties earned in the quarter ended September 30, 2003, which is included in Other Accrued Liabilities on the accompanying Consolidated Balance Sheet.

15. COMPREHENSIVE LOSS

Comprehensive loss is comprised of net loss and the change in unrealized holding gains and losses on available-for-sale securities.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net loss	$(576)	$(995)	$(4,115)	$(2,430)
Change in unrealized gains (losses) on available-for-sale securities	—	15	42	115
Comprehensive loss	$(576)	$(980)	$(4,073)	$(2,315)

16. SHAREHOLDER RIGHTS PLAN

On February 11, 2003 the Board of Directors of the Company adopted a Shareholder Rights Plan. In connection with the Rights Plan, the Board of Directors declared a dividend of one preferred share purchase right (the "Rights") for each outstanding share of common stock, no par value per share (the "Common Shares"), of the Company outstanding at the close of business on February 21, 2003 (the "Record Date"). Each Right will entitle the registered holder thereof, after the Rights become exercisable and until February 10, 2013 (or the earlier redemption, exchange or termination of the Rights), to purchase from the Company one one-hundredth (1/100th) of a share of Series C Junior Participating Preferred Stock, no par value per share (the "Preferred Shares"), at a price of $10 per one one-hundredth (1/100th) of a Preferred Share, subject to certain anti-dilution adjustments (the "Purchase Price"). Until the earlier to occur of (i) ten (10) days following a public announcement that a person or group of affiliated or associated persons has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the Common Shares (an "Acquiring Person") or (ii) ten (10) business days (or such later date as may be determined by action of the Board of Directors prior to such time as any person or

group of affiliated persons becomes an Acquiring Person) following the commencement or announcement of an intention to make a tender offer or exchange offer the consummation of which would result in the beneficial ownership by a person or group of 15% or more of the Common Shares (the earlier of (i) and (ii) being called the "Distribution Date"), the Rights will be evidenced, with respect to any of the Common Share certificates outstanding as of the Record Date, by such Common Share certificate. An Acquiring Person does not include any Existing Holder (defined as Sigma-Tau Finanziaria S.p.A., together with all of its Affiliates and Associates, including, without limitation Defiante Farmaceutica L.D.A., Sigma-Tau International S.A., Paolo Cavazza and Claudio Cavazza,), unless and until such time as such Existing Holder shall become the beneficial owner of one or more additional Common Shares of the Company (other than pursuant to a dividend or distribution paid or made by the Company on the outstanding Common Shares in Common Shares or pursuant to a split or subdivision of the outstanding Common Shares), unless, upon becoming the beneficial owner of such additional Common Shares, such Existing Holder is not then the beneficial owner of 15% or more of the Common Shares then outstanding.

In the event that a Person becomes an Acquiring Person or if the Company were the surviving corporation in a merger with an Acquiring Person or any affiliate or associate of an Acquiring Person and the Common Shares were not changed or exchanged, each holder of a Right, other than Rights that are or were acquired or beneficially owned by the Acquiring persons (which Rights will thereafter be void), will thereafter have the right to receive upon exercise that number of Common Shares having a market value of two times the then current Purchase Price of one Right. In the event that, after a person has become an Acquiring Person, the Company were acquired in a merger or other business combination transaction or more than 50% of its assets or earning power were sold, proper provision shall be made so that each holder of a Right shall thereafter have the right to receive, upon the exercise thereof at the then current Purchase Price of the Right, that number of shares of common stock of the acquiring company which at the time of such transaction would have a market value of two times the then current purchase price of one Right.

Independent Accountants' Review Report

The Board of Directors
Questcor Pharmaceuticals, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Questcor Pharmaceuticals, Inc. as of September 30, 2003, and the related condensed consolidated statements of operations for the three and nine month periods ended September 30, 2003 and 2002, and the condensed consolidated statements of cash flows for the nine month periods ended September 30, 2003 and 2002. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Questcor Pharmaceuticals, Inc. as of December 31, 2002, and the related consolidated statements of operations, preferred stock and stockholders' equity (deficit), and cash flows for the year then ended and in our report dated February 11, 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2002 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

Palo Alto, California
October 9, 2003

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

Except for the historical information contained herein, the following discussion contains forward-looking statements that involve risks and uncertainties, including statements regarding the period of time during which our existing capital resources and income from various sources will be adequate to satisfy our capital requirements. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this section, as well as those discussed in our annual report on form 10-K for the fiscal year ended December 31, 2002, including Item 1 "Business of Questcor," and including without limitation "Risk Factors," as well as factors discussed in any documents incorporated by reference herein or therein. Whenever used in this Quarterly Report, the terms "Questcor," "Company," "we," "our," "ours," and "us" refer to Questcor Pharmaceuticals, Inc. and its consolidated subsidiaries.

Overview

We are a specialty pharmaceutical company that acquires, develops, markets and sells brand name prescription drugs through a U.S. direct sales force and overseas distributors. We focus on the treatment of conditions, including central nervous system ("CNS") diseases and gastroenterological disorders which are served by a concentrated group of physicians, such as neurologists and gastroenterologists. Our strategy is to acquire pharmaceutical products that we believe have sales growth potential, are promotionally responsive to a focused, targeted sales and marketing effort and complement our existing products. In addition, through corporate collaborations, we intend to develop new patented intranasal formulations of previously FDA approved drugs. We currently market five products in the U.S.: HP Acthar® Gel ("Acthar"), an injectable drug that is approved for the treatment of certain CNS disorders with an inflammatory component including the treatment of flares associated with multiple sclerosis ("MS") and is also commonly used in treating patients with infantile spasm; Nascobal®, the only prescription nasal gel used for the treatment of various Vitamin B-12 deficiencies; Ethamolin®, an injectable drug used to treat enlarged weakened blood vessels at the entrance to the stomach that have recently bled, known as esophageal varices; Glofil®-125 which is an injectable agent that assesses how well the kidney is working by measuring glomerular filtration rate, or kidney function; and VSL#3™, a patented probiotic marketed as a dietary supplement to promote normal gastrointestinal (GI) function. Probiotics are living organisms in food and dietary supplements, which, upon ingestion in certain numbers, improve the health of the host beyond their inherent basic nutrition. Due to minimal demand and increasing production costs, we discontinued marketing and selling Inulin in Sodium Chloride on September 30, 2003. On June 17, 2003, we acquired Nascobal®, a nasal gel formulation of Cyanocobalamin USP (Vitamin B-12), from Nastech Pharmaceutical Company, Inc. ("Nastech"). We began distributing Nascobal in July 2003. We are marketing Nascobal for patients with severe deficiencies of Vitamin B-12 associated with MS and Crohn's Disease as these patients are at high risk of developing severe deficiencies of Vitamin B-12 due to a compromised ability to absorb Vitamin B-12 through the gastrointestinal system.

Consistent with our efforts to focus on sales and marketing, our spending on research and development activities is minimal. Expenses incurred for the manufacturing site transfer and medical and regulatory affairs are classified as Research and Development Expenses in the accompanying Statement of Operations. We have entered into several agreements with pharmaceutical and biotechnology companies to further the development of certain technology acquired from RiboGene. In June 2002, we signed a definitive License Agreement with Fabre Kramer Pharmaceuticals, Inc. ("Fabre Kramer") for the exclusive worldwide development and commercialization of Hypnostat™ (intranasal triazolam for insomnia) and Panistat™ (intranasal alprazolam for panic disorders). Under the License Agreement, Fabre Kramer assumed the primary responsibility for the development of Hypnostat and Panistat. Our antiviral drug discovery program has been partnered with Rigel Pharmaceuticals, Inc. of South San Francisco, CA. and our antibacterial program has been partnered with Dainippon Pharmaceuticals Co., Ltd. of Osaka, Japan.

We have sustained an accumulated deficit of $83.0 million from inception through September 30, 2003. At September 30, 2003, we had $4.8 million in cash, cash equivalents and short-term investments. Results of operations may vary significantly from quarter to quarter depending on, among other factors, the results of our sales efforts, timing of expiration of our products and the resulting shipment of replacement product under our exchange policy, customers adherence to our sales and exchange policies, completion of the Acthar site transfer, the amount of inventory existing at the wholesale level, the availability of finished goods from our sole-source manufacturers, the timing of certain expenses, the acquisition of marketed products, the establishment of strategic alliances and corporate partnering arrangements and the receipt of milestone payments.

Critical Accounting Policies

Our management discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. On an on-going basis, we evaluate our estimates, including those related to product returns, sales allowances, bad debts, inventories, investments and intangible assets. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the

basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

Sales Allowances and Product Returns and Rebates

We have estimated allowances for product returns, government chargebacks, Medicaid rebates and cash discounts for prompt payment. We estimate our allowances by utilizing historical information for existing products and data obtained from external sources. For new products, we estimate our allowances for product returns and rebates on specific terms for product returns and rebates and our experience with similar products. Effective August 12, 2002, we changed our return goods policy such that we no longer issue credit memorandums for returns, rather all returns are exchanged for replacement product. The estimated costs for such exchanges, which include actual product costs and related shipping charges, are included in Cost of Product Sales. In estimating returns, we analyze (i) historical returns and sales patterns, (ii) current inventory on hand at wholesalers and in the distribution channel and the remaining shelf life of that inventory (ranging from 45 days to 3 years), and (iii) changes in demand. We continually assess our historical experience including customers' compliance with return goods policy, and we adjust our allowances as appropriate. In estimating Medicaid rebates, we match the actual rebates to the actual sale on a product-by-product basis to arrive at an actual rebate percentage. This actual percentage is used to estimate a rebate percentage which is applied to current period sales to arrive at the rebate expense for the period. In particular, we consider allowable prices by Medicaid. If actual product returns, government chargebacks, Medicaid rebates and cash discounts are greater than our estimates, additional allowances may be required.

Inventories

We maintain inventory reserves primarily for obsolescence (due to the expiration of shelf life). In estimating inventory obsolescence reserves, we analyze on a product-by-product basis (i) the shelf life and the expiration date, and (ii) our sales forecasts. Judgment is required in determining whether the forecasted sales information is sufficiently reliable to enable us to estimate inventory obsolescence.

Intangible Assets

We have intangible assets related to goodwill and other acquired intangibles. The determination of related estimated useful lives and whether or not these assets are impaired involves significant judgment. Changes in strategy and/or market conditions could significantly impact these judgments and require adjustments to recorded asset balances. We review intangible assets, as well as other long-lived assets, for impairment whenever events or circumstances indicate that the carrying amount may not be fully recoverable.

Results of Operations

Three months ended September 30, 2003 compared to the three months ended September 30, 2002:

Total revenues for the quarter ended September 30, 2003 increased $119,000, or 3%, to $3,967,000 from total revenues of $3,848,000 for the quarter ended September 30, 2002.

For the quarter ended September 30, 2003, net product sales increased $171,000, or 5%, to $3,943,000 from $3,772,000 for the quarter ended September 30, 2002. We commenced sales of Nascobal in July 2003, which contributed to the increase in third quarter net product sales. The net product sales for the third quarter of 2002 included the impact of advance buying by customers upon notification of our price increase for Ethamolin and Acthar that went into effect June 24, 2002. From the date of the notification of the price increase through the effective date of the price increase, we received $3,231,000 of Acthar and Ethamolin orders of which $2,454,000 were filled in July 2002.

During the quarter ended September 30, 2003, we replaced vials of Acthar at no cost for certain of the returned product of Acthar batches that expired in November 2002 and May 2003. Subsequent to September 30, 2003, we will continue to replace Acthar returned from expired lots. We will do so again for the Acthar lot that expires in January 2004. We believe the shipment of replacement product may have displaced sales of Acthar in the quarter ended September 30, 2003, and the replacement of product subsequent to September 30, 2003 for product that expired in May 2003 and expiring in January 2004 and future expiring product may displace future quarter sales. The full extent of this displacement is not ascertainable at this time, however, as of September 30, 2003, customers have requested the replacement of expired Acthar with a sales value of greater than $850,000. We intend to replace this expired product in the fourth quarter of 2003. These replacements will likely displace sales in future periods. The costs related to replacement products are reserved for and are included as a component of Cost of Product Sales.

For the quarter ended September 30, 2003, net product sales of Ethamolin declined substantially. This is partially due to the prior year's results including the advanced buying upon notification of the price increase for Ethamolin that went into effect June 24, 2002 as described above. In addition, we reviewed the external demand data over the last two years and noted that the demand for Ethamolin is declining. We believe this decline is partially a result of procedures and devices being used to treat bleeding esophageal varices rather than the use of sclerosing agents. Also in the current period, we noted one of our major customers purchased large quantities of Ethamolin. We believe, through review of external data, that the amount purchased by this major customer was in excess of historical demand and represents over nine months of inventory at their reported demand. To the extent that inventory held by our wholesalers exceeds ultimate demand, we believe that this will adversely impact our future net product sales.

Grant and royalty revenue decreased by $2,000, or 8%, to $24,000 for the quarter ended September 30, 2003 from $26,000 for the quarter ended September 30, 2002. This decrease was primarily a result of lower reimbursement under our Small Business Innovation Research ("SBIR") grant due to less activity taking place with the GERI compound research projects in the quarter ended September 30, 2003, as compared to the quarter ended September 30, 2002. The GERI grant was terminated on July 31, 2003.

For the quarter ended September 30, 2003 we did not recognize any services revenue. We recognized $50,000 of services revenue from a related party for the quarter ended September 30, 2002. This amount reflects revenues recorded through September 30, 2002, resulting from a $200,000 payment made to us by VSL for certain promotional activities we undertook to support the launch of VSL#3™ in the quarter ended June 30, 2002. The balance was recognized as revenue ratably through December 2002, at which time it was fully recognized.

Cost of product sales decreased $85,000, or 10%, to $796,000 for the quarter ended September 30, 2003 from $881,000 for the quarter ended September 30, 2002. This decrease is due primarily to a change in our product mix. In addition, the quarter ended September 30, 2002 included an increase in our excess inventory allowance. We expect per unit material costs to increase in the future due to higher contract manufacturing costs. Cost of product sales as a percentage of net product sales improved to 20% for the quarter ended September 30, 2003 as compared to 23% for the quarter ended September 30, 2002. In April 2003, we decided to outsource certain functions previously performed in our Carlsbad, California distribution center, including, but not limited to, warehousing, shipping and quality control studies. We expect cost of product sales to increase as a result of our outsourcing of these functions. We have entered into agreements with various vendors to distribute Acthar, Nascobal, Ethamolin, Glofil and Inulin, and we distribute VSL#3 from our Union City facility. We discontinued marketing and selling Inulin in Sodium Chloride on September 30, 2003.

Selling, general and administrative expenses for the quarter ended September 30, 2003 decreased $262,000 or 9% to $2,630,000 from $2,892,000 for the quarter ended September 30, 2002. The decrease is primarily due to less marketing, investor relations consulting and compensation costs incurred in the quarter ended September 30, 2003 as compared to the quarter ended September 30, 2002. Also contributing to the decrease was an overall reduction of spending in our general and administrative functions.

Research and development expenses for the quarter ended September 30, 2003 increased $8,000, or 1%, to $590,000, from $582,000 for the quarter ended September 30, 2002. The costs included in research and development relate primarily to our manufacturing site transfers and medical and regulatory affairs compliance activities. In the quarter ended September 30, 2003, we ceased use of our Carlsbad facility and accordingly recorded a charge related to the remaining lease payments. The increase is primarily due to the cease-use charge relating to the Carlsbad facility, offset in part by a reduction in royalty and compensation expense as compared to the quarter ended September 30, 2002. Although minimal site transfer costs were incurred in the quarter ended September 30, 2003, the costs related to the Acthar site transfer may fluctuate in the future depending on the timing of work performed and the costs related to such activities.

Depreciation and amortization expense increased by $179,000, or 68%, to $441,000 for the quarter ended September 30, 2003, from $262,000 for the quarter ended September 30, 2002. This increase was due primarily to the amortization of the purchased technology related to the Nascobal product acquisition (for $14.2 million), which will be amortized over 15 years. The prior purchased technology's net remaining balance of $39,000 will be fully amortized in 2003.

Non-cash amortization of deemed discount on convertible debentures for the quarter ended September 30, 2003 was $130,000, consistent with the quarter ended September 30, 2002. The convertible debentures were issued March 15, 2002.

Interest expense, net increased by $7,000, or 64%, to $18,000 for the quarter ended September 30, 2003 from $11,000 for the quarter ended September 30, 2002 primarily due to lower interest income due to lower cash balances during the quarter and lower interest rates compared to the same period in 2002.

Other income increased by $156,000 to $5,000 for the quarter ended September 30, 2003, from $151,000 of other expense, net for the quarter ended September 30, 2002. For the quarter ended September 30, 2002, we recorded an other-than-temporary loss of

$186,000 on our investment in Rigel Pharmaceuticals' equity securities. We liquidated our entire equity position in Rigel in the second quarter of 2003.

Rental income, net was consistent for the quarter ended September 30, 2003 as compared to the quarter ended September 30, 2002.

Preferred Stock dividends of $200,000 represent the 8% cash dividends payable to the Series B Preferred Stock holders. These dividends are required to be paid in cash quarterly. The Series B Preferred Stock was issued in January of 2003.

Nine months ended September 30, 2003 compared to the nine months ended September 30, 2002:

For the nine months ended September 30, 2003, net product sales decreased $1,700,000, or 16%, to $9,185,000 from $10,885,000 for the nine months ended September 30, 2002. The net product sales for the nine months ended September 30, 2002 included the impact of advance buying upon notification of the price increase for Ethamolin and Acthar that went into effect June 24, 2002. From the date of the notification of the price increase through the effective date of the price increase, we received $3,231,000 of Acthar and Ethamolin orders of which $2,454,000 were filled in July 2002. In addition, during the nine months ended September 30, 2002, we shipped backorders outstanding at December 31, 2001 amounting to $334,000 for Acthar and $408,000 for Ethamolin. We believe that a portion of the decrease in net product sales for the nine months ended September 30, 2003 is attributable to these purchases made as a result of the notification of the price increase and from the shipment of the backorders. This decline in net product sales was partially offset by an increase in the list price of Acthar and Ethamolin in April 2003 and the initiation of Nascobal sales in July 2003. The remaining decrease in net product sales can be partially attributed to our decision to not ship short-dated product during the first quarter of 2003 and may also be attributed to the replacement of previously expired product at no cost to the customer in accordance with our exchange policy.

In the first quarter of 2003, due to the relatively short dating of Acthar in our inventories and at the wholesale level, we briefly limited Acthar shipments to critical care and emergency situations. After we obtained approval in November 2002 to extend the expiration date on Acthar to 18 months from 12 months, we resumed shipments of Acthar with a January 2004 expiration date when the extended dated material was released late in the first quarter of 2003. During the nine months ended September 30, 2003, we replaced vials of Acthar at no cost for certain of the returned Acthar lots that expired in November 2002 and May 2003. Subsequent to September 30, 2003, we will continue to replace Acthar returned from the November 2002 and May 2003 expired lots. We will do so again for the Acthar lot that expires in January 2004. We believe the shipment of replacement product may have displaced sales in the nine months ended September 30, 2003, and the replacement of product that expired in May 2003 and expiring in January 2004 and future expiring product may displace future quarter sales. The full extent of this displacement is not ascertainable at this time; however, as of September 30, 2003, customers have requested the replacement of expired Acthar with a sales value of greater than $850,000. We intend to replace this expired product in the fourth quarter of 2003. These replacements will likely displace sales in future periods.

For the nine months ended September 30, 2003, net product sales of Ethamolin declined substantially. This is partially due to the prior years' results including the advanced buying upon notification of the price increase for Ethamolin that went into effect June 24, 2002 as describe above. In addition, we reviewed the external demand data over the last two years and noted that the demand for Ethamolin is declining. We believe this decline is partially a result of devices being used to treat bleeding esophageal varices rather than the use of sclerosing agents. Also in the current period, we noted one of our major customers purchased large quantities of Ethamolin. We believe, through review of external data, that the amount purchased by this major customer was in excess of historical demand and represents over nine months inventory at their reported demand. To the extent that inventory held by our wholesalers exceeds ultimate demand, we believe that this will adversely impact our future net product sales.

Grant and royalty revenue for the nine months ended September 30, 2003 decreased $100,000, or 63%, to $58,000 from $158,000 for the nine months ended September 30, 2002. This decrease was a result of lower reimbursement under the SBIR grant due to less activity taking place with the GERI compound research project in the nine months ended September 30, 2003 as compared to the nine months ended September 30, 2002. The GERI grant was terminated on July 31, 2003. The royalty revenue represents sales of Pramidin® in Italy, under a license agreement we had with sirton Pharmaceuticals, S.p.A. that expired in accordance with its terms in September 2002.

In both the nine months ended September 30, 2003 and 2002, we recognized $250,000 in technology revenue related to the License Agreement with Fabre-Kramer. Additionally, we had services revenue from a related party of $150,000 for the nine months ended September 30, 2002. This amount reflects revenues resulting from the $200,000 payment made by VSL for certain promotional activities we undertook to support the launch of VSL#3. The balance was recognized as revenue ratably through December 2002 at which time it was fully recognized.

Cost of product sales for the nine months ended September 30, 2003 increased $377,000, or 17%, to $2,620,000 from $2,243,000 for the nine months ended September 30, 2002. The increase is due to increases in our excess inventory allowance, increases in per unit material costs and increases in costs related to the replacement of expired product. We expect per unit material costs to increase in

the future due to higher contract manufacturing costs. Cost of product sales as a percentage of net product sales increased to 29% for the nine months ended September 30, 2003 from 21% for the nine months ended September 30, 2002. In April 2003, we decided to outsource certain functions previously performed in our Carlsbad, California distribution center, including, but not limited to, warehousing, shipping and quality control studies. We expect cost of product sales to increase as a result of our outsourcing of these functions. We have entered into agreements with various vendors to distribute Acthar, Nascobal, Ethamolin, Glofil and Inulin, and we distribute VSL#3 from our Union City facility. We discontinued marketing and selling Inulin in Sodium Chloride on September 30, 2003.

Selling, general and administrative expenses for the nine months ended September 30, 2003 decreased by $716,000 to $7,950,000, from $8,666,000 for the nine months ended September 30, 2002. Marketing expense decreased for the nine months ended September 30, 2003, but was offset by increased salary and other costs as a result of the full nine months impact of the expansion to our sales and marketing departments that took place in May 2002. In addition, non-cash charges for stock-based compensation of $243,000 were recorded in the nine months ended September 30, 2002. Also contributing to the decrease was an overall reduction of spending in our general and administrative functions.

Research and development expenses for the nine months ended September 30, 2003 increased by $220,000, or 13%, to $1,912,000 from $1,692,000 for the nine months ended September 30, 2002. The costs included in research and development relate primarily to manufacturing site transfers and medical and regulatory affairs compliance activities. This increase is primarily due to consulting and outside testing costs incurred related to the Acthar site transfer in the first nine months of 2003 as compared to the first nine months of 2002. In the nine months ended September 30, 2003, a third party contract laboratory completed several tests as part of the Acthar manufacturing site transfer. To date, this laboratory has been unsuccessful in validating the assay in order to complete the transfer. If this laboratory is unable to validate this specific assay, we may be forced to find a new contractor to complete this work, which in turn could increase our costs substantially. The costs related to the Acthar site transfer may fluctuate depending on the timing of work performed and the costs related to such activities. In addition, in the nine months ended September 30, 2003, we ceased use of our Carlsbad facility and accordingly recorded a charge related to the remaining lease payments which contributed to the increase.

Depreciation and amortization expense decreased by $99,000, or 11%, to $822,000 for the nine months ended September 30, 2003, from $921,000 for the nine months ended September 30, 2002. The decrease was primarily due to assets becoming fully depreciated and a portion of purchased technology becoming fully amortized, offset by amortization of the purchased technology related to the Nascobal acquisition (in June 2003), which will be amortized over 15 years.

Non-cash amortization of deemed discount on convertible debentures for the nine months ended September 30, 2003 increased by $86,000, or 28%, to $391,000 from $305,000 for the nine months ended September 30, 2002. The increase was due to the current period representing a full nine month’s amortization of deemed discount related to the convertible debentures. The convertible debentures were issued March 15, 2002.

Interest expense, net, increased by $35,000 to $32,000 for the nine months ended September 30, 2003 from net interest income of $3,000 for the nine months ended September 30, 2002. This was primarily due to the current period representing a full nine months interest expense on the convertible debentures issued March 15, 2002. In addition, for the nine months ended September 30, 2003 less interest income was earned due to lower cash balances during the period and lower interest rates compared to the same period in 2002.

Other expense, net, decreased by $186,000, or 71%, to $75,000 for the nine months ended September 30, 2003 from $261,000 for the nine months ended September 30, 2002. The decrease in expense is primarily due to a smaller loss related to our investment in Rigel Pharmaceuticals’ equity securities recorded in the nine months ended September 30, 2003 as compared to the same period for 2002. We liquidated our entire equity position in Rigel in the second quarter of 2003. As such, for the nine months ended September 30, 2003 we recorded an other-than-temporary loss of $51,000 and realized losses of $14,000 on the Rigel equity investment as compared to a $367,000 other-than-temporary loss recorded on the Rigel equity securities investment for the nine month period ended September 30, 2002. The other expense for the nine months ended September 30, 2002, was partially offset by other income recognized in the period as a result of receipt of profits arising from short swing stock trades executed by one of our 10% shareholders.

Rental income, net was consistent for the nine months ended September 30, 2003 as compared to the nine months ended September 30, 2002.

Non-cash deemed dividend of $1,394,000 at September 30, 2003 is related to the beneficial conversion feature in connection with the Series B Preferred Stock and warrants issued in January 2003. A beneficial conversion feature is present because the effective conversion price of the Preferred Stock was less than the fair value of the Common Stock on the commitment date. In addition, on June 13, 2003, we obtained a letter from our Series B Preferred Stock holders whereby certain covenants were waived. In exchange for such waiver, the exercise price of the warrant was reduced. The beneficial conversion feature was revalued using the new exercise price and the increase in value was recorded as a deemed dividend.

Preferred Stock dividends of $567,000 represent the 8% cash dividends payable to the Series B Preferred Stock holders. These dividends are required to be paid in cash quarterly.

Liquidity and Capital Resources

We have funded our activities to date principally through various issuances of equity securities. Through September 30, 2003, we have raised total net proceeds of $60.6 million. We have also funded our activities to date to a lesser extent through product sales.

At September 30, 2003, we had cash, cash equivalents and short-term investments of $4,821,000 compared to $7,506,000 at December 31, 2002. At September 30, 2003, our working capital was $3,703,000 compared to $7,018,000 at December 31, 2002. The decrease in our working capital was principally due to the $14.3 million acquisition of Nascobal and funds used in operations, offset by net proceeds received in our $10 million private placement of Series B Convertible Preferred Stock in January 2003 and our $5 million private placement of Common Stock and warrants in June 2003.

In connection with our acquisition of Nascobal, we are required to pay an additional $2.2 million payable to Nastech on or before December 31, 2003. The $2.2 million payable is included in the "Payable Relating to Product Acquisition" on the accompanying Condensed Consolidated Balance Sheet. As part of the acquisition, we are also acquiring rights to Nascobal nasal spray, an improved dosage form, for which an NDA is expected to be filed by Nastech with the FDA before the end of 2003. Subject to the approval of the NDA for the new Nascobal nasal spray dosage form by the FDA, we will be required to make a $2 million payment for the transfer of the NDA from Nastech to us. Further, subject to the approval of the NDA for the new Nascobal nasal spray dosage form and upon issuance of a pending U.S. patent for the new Nascobal nasal spray dosage form, we will be required to make a second $2 million payment.

We may have substantial cash outlays for the Acthar site transfer. The site transfer process is not complete and may require substantial cash outlays for the work performed, capital expenditures and inventory, prior to the transfer being complete.

It is currently our customer's standard practice to deduct from payments to us the amount of the sales value of expired product that they have requested for return ("returns receivable"). The returns receivable amounted to $478,000 at September 30, 2003. Customers have indicated that they will reimburse Questcor for these deductions upon the replacement of units in accordance with our exchange policy, however, our experience has been the timing of such reimbursements is slower than the collection of our normal trade receivables. As of September 30, 2003, replacement units have been shipped relating to the majority of amounts owing to us and we are seeking reimbursement from these customers. As long as our customer's standard practice is to deduct amounts related to the return of expired product, a returns receivable will arise. Should our customers not comply with our exchange policy, the amounts deducted by them for returns may not be collectible.

In January 2002, we entered into a revolving accounts receivable line of credit with Pacific Business Funding, a division of Greater Bay Bancorp. Under the agreement, we can borrow up to the lesser of 80% of our eligible accounts receivable balance or $3,000,000. Interest accrues on outstanding advances at an annual rate equal to prime rate plus four and one-half percent. The term of the agreement is one year and the note automatically renews annually, unless we terminate the agreement. There were no borrowings under this line of credit as of September 30, 2003. The line of credit is secured by a blanket lien on all of our assets including intellectual property. As of September 30, 2003, $1,346,000 was available for borrowing under the line of credit.

In January 2003, we completed a private placement of Series B Convertible Preferred Stock and warrants to purchase common stock to various healthcare investors. Our gross proceeds from the private placement were $10 million. The Series B Preferred Stock has an aggregate stated value of $10 million and is entitled to a quarterly dividend at an initial rate of 8% per year, which rate will increase to 10% per year on and after January 1, 2006, and to 12% on and after January 1, 2008. In addition, on the occurrence of designated events the dividend rate will increase by an additional 6% per year. The Series B Preferred Stock is entitled to a liquidation preference over our common stock and Series A Preferred Stock upon a liquidation, dissolution or winding up of Questcor. The Series B Preferred Stock is convertible at the option of the holder into our common stock at a conversion price of $0.9412 per share, subject to certain anti-dilution adjustments. We have the right commencing on January 1, 2006 (assuming specified conditions are met) to redeem the Series B Preferred Stock at a price of 110% of stated value, together with all accrued and unpaid dividends and arrearage interest. In addition, upon the occurrence of designated Optional Redemption Events, the holders have the right to require us to redeem the Series B Preferred Stock at 100% of stated value, together with all accrued and unpaid dividends and accrued interest. The terms of the Series B Preferred Stock contain a variety of affirmative and restrictive covenants, including limitations on indebtedness and liens. Each share of Series B Preferred Stock is generally entitled to a number of votes equal to 0.875 times the number of shares of common stock issuable upon conversion of such share of Series B Preferred Stock. The purchasers of the Series B Preferred Stock also received for no additional consideration warrants exercisable for an aggregate of 3,399,911 shares of our common stock at an exercise price of $1.0824 per share, subject to certain anti-dilution adjustments. The warrants expire in January 2007. In June 2003, the exercise price of the warrants was adjusted to $0.9412 per share.

In June 2003, we entered into agreements with the holders of record of our Series B Preferred Stock, whereby the holders of Series B Preferred Stock waived certain covenants and rights to receive additional dividends as provided in the Certificate of Determination, which may have been triggered as a result of our acquisition of Nascobal and the use of our cash resources to pay the purchase price

(the “Acquisition”). Specifically, the holders of Series B Preferred Stock waived their right to receive an additional aggregate six percent dividend in the event that the Acquisition resulted in our being unable to satisfy the test set forth in Sections 500 and 501 of the California Corporations Code to allow for us to redeem all of the issued and outstanding shares of Series B Preferred Stock. Such waiver was granted through the earlier of (i) December 31, 2003 and (ii) the date on which (A) our assets (exclusive of goodwill, capitalized research, and development expenses and deferred charges) equal less than 125% of our liabilities (not including deferred taxes, deferred income and other deferred credits) or (B) our current assets equal less than 80% of our current liabilities. Additionally, the holders of Series B Preferred Stock waived their right to receive an additional aggregate six percent dividend in the event that the Acquisition resulted in our being unable to maintain Net Cash, Cash Equivalents and Eligible Investment Balances (as defined in the Certificate of Determination) in an amount equal to $5 million. Such waiver was granted through the earlier of (i) December 31, 2003 and (ii) the date on which we fail to maintain Net Cash, Cash Equivalents and Eligible Investment Balances in an amount equal to at least $2.5 million. The holders of Series B Preferred Stock also agreed that: (i) the Acquisition would not constitute a breach of the covenant in the Certificate of Determination requiring us to use our best efforts to maintain compliance with Sections 500 and 501 of the California Corporations Code to be able to pay dividends on and to redeem all of the issued and outstanding shares of Series B Preferred Stock; and (ii) the incurrence by us of contingent obligations to pay additional amounts to Nastech of $5,183,333 and the granting of a security interest in the acquired Nascobal product would not constitute a breach of the covenants in the Certificate of Determination restricting our ability to incur indebtedness and create liens. In consideration of such agreements, we agreed to adjust the exercise price of warrants to purchase 3,399,911 shares of our common stock previously issued by us to the holders of Series B Preferred Stock from $1.0824 per share to $0.9412 per share.

Also in June 2003, we consummated a private placement of our Common Stock and warrants to purchase Common Stock. We issued 4,979,360 shares of Common Stock in the private placement at $1.01 per share, which was the volume weighted average price of the common stock for the five days prior to and including the close of the private placement. Gross proceeds to us from the private placement were approximately $5 million. The purchasers of our Common Stock also received for no additional consideration warrants exercisable for an aggregate of 2,987,616 shares of Common Stock at an exercise price of $1.26 per share, which represented a 25% premium to the volume weighted average price of the Common Stock for the five days prior to and including the close of the private placement. The warrants expire in June 2008.

In August 2002, we were notified by the American Stock Exchange (“AMEX”) that certain of our financial measures fell below certain of AMEX’s continued listing standards and we had therefore become subject to possible delisting. On October 15, 2003, AMEX notified us that it had completed its review of Questcor and determined that we are now in compliance with AMEX’s applicable continued listing standards.

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

We are seeking to raise additional funds through public or private equity financing or from other sources, before the end of 2003 to first, fund operations and to meet our obligations, second, to seek to comply with certain covenants and thus avoid the payment of additional dividends of 6% to the holders of the Series B Convertible Preferred Stock for which we have a waiver through the end of 2003 as described above, and, third, if funds remain, acquire additional products and expand our operations. Additionally, we may seek to raise additional capital whenever conditions in the financial markets are favorable, even if we do not have an immediate need for additional cash at that time. There can be no assurance that we will be able to obtain additional funds on desirable terms or at all.

RISK FACTORS

The following risk factors supplement the risk factors contained in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2003. You should carefully consider the following risk factors, in addition to the other information included in this prospectus, before purchasing shares of our common stock. Each of these risks could adversely affect our business, financial condition and results of operations, as well as adversely affect the value of an investment in our common stock.

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

We are seeking to raise additional funds through public or private equity financing or from other sources, before the end of 2003 to first, fund operations and to meet our obligations, second, to seek to comply with certain covenants and thus avoid the payment of additional dividends of 6% to the holders of the Series B Convertible Preferred Stock for which we have a waiver through the end of 2003, and, third, if funds remain, acquire additional products and expand our operations. Additionally, we may seek to raise additional capital whenever conditions in the financial markets are favorable, even if we do not have an immediate need for additional cash at that time. There can be no assurance that we will be able to obtain additional funds on desirable terms or at all.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk at September 30, 2003 has not changed materially from December 31, 2002, and reference is made to the more detailed disclosures of market risk included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2002 as filed with the Securities and Exchange Commission on March 26, 2003.

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

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

Not applicable

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

15.1 Letter regarding Unaudited Financial Information

31 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification pursuant to Section 906 of the Public Company Accounting Reform and Investor Act of 2002.

(b) Reports on Form 8-K

On August 14, 2003, we furnished on Form 8-K, under Item 9, our press release of our results for the quarter ended June 30, 2003.

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.

PHARMACEUTICALS, INC.

Date: November 12, 2003

By: /s/ CHARLES J. CASAMENTO

By: **Charles J. Casamento**
Chairman, President & CEO

Date: November 12, 2003

/s/ TIMOTHY E. MORRIS

Timothy E. Morris
Vice President, Finance & Administration
And Chief Financial Officer (Principal
Financial and Accounting Officer)

Table of Contents

Exhibit Index

10.30	Letter Agreement dated September 2, 2003 between the Company and Roy Jerald Beers.
10.31	Confidential Separation Agreement and Release dated September 30, 2003 between the Company and Kenneth R. Greathouse.
15.1	Letter regarding Unaudited Financial Information
31	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to Section 906 of the Public Company Accounting Reform and Investor Act of 2002.

Exhibit 10.30

[QUESTCOR LOGO]

[QUESTCOR LETTERHEAD]

Charles J. Casamento
Chairman, President & CEO

September 2, 2003

Questcor Pharmaceuticals, Inc.
3260 Whipple Road
Union City, CA 94587

Re: Offer of Employment

Dear Mr. Beers:

Questcor Pharmaceuticals, Inc. (the "Company") is pleased to offer you the position of Vice President, Marketing, a corporate officer, on the terms described below. Should you accept our offer of employment, your start date will be September 15, 2003.

You will report to Charles J. Casamento, Chief Executive Officer. Your office will be located at our facility in Union City, California. Of course, the Company may change your reporting responsibilities, position, duties, and work location from time to time, as it deems necessary.

Your base compensation will be $184,000 per annum ($7,666.66 semi-monthly) less all amounts the Company is required to hold under applicable laws. Effective January 1, 2004, you will be a participant in the annual management incentive program for executives, which has been approved by the Compensation Committee. Your incentive bonus will be based on the attainment of specific milestones during each calendar year. The milestones will be communicated to you in writing by Mr. Casamento following the start of your employment and will be updated annually as part of the performance review process. Your maximum bonus opportunity will be 33% of your base compensation earnings in the calendar year to which it applies. The Company will provide you a relocation allowance of an amount not to exceed $75,000, to cover all reasonable and customary expenses associated with your relocation to the San Francisco Bay area. Those expenses paid by you which affect your income tax liability will be "grossed-up" accordingly. In addition, as soon as administratively practicable following the start of your employment, the Company will provide you with a change of control agreement commensurate with your position.

You will be eligible to participate in the Company's various benefit plans including medical, dental and vision insurance, as well as life, accidental death and disability insurance. You will receive 16 days of paid vacation per calendar year, in addition to 12 paid regular holidays and two paid floating holidays. You will also be eligible to participate in the Company's 401(k) Plan, Section 529 College Savings Program and Employee Stock Purchase Plan. The eligibility requirements for these plans are explained in the Company's Employee Handbook, and in the case of the Company's 401(k) Plan, in the 401(k) Plan's summary plan description. A copy of the Employee Handbook and the

401(k) Plan's summary plan description will be provided to you. Please read them carefully. Of course, to the extent the provisions of the various plans are inconsistent with the provisions of the Employee Handbook or summary plan description, the plan provisions will control.

As you no doubt appreciate, as a Company employee, you will be expected to abide by Company rules and regulations, acknowledge in writing that you have read the Company's Employee Handbook, sign and comply with a Proprietary Information and Inventions Agreement which prohibits unauthorized use or disclosure of Company proprietary information and sign the Policy Against Insider Trading.

The Company's management has in effect an employee stock option plan to recognize the talent and skills our employees bring to the Company. Management will recommend to the Board of Directors that, at the time you join the Company, the Company grant to you an option under the stock option plan to purchase 300,000 shares of the Common Stock of the Company at an exercise price equal to 100% of the closing price of the Company's Common Stock on the date prior to approval by the Board of Directors. One-eighth (1/8th) of these options will vest after six (6) months of employment and thereafter the remaining shares will vest at the rate of 1/48th of the total grant on each monthly anniversary of your continued employment with the Company. The option will be subject to the terms and conditions of the Company's stock option plan and your stock option agreement.

The Company will review your performance in accordance with the Employee Handbook, to assess your accomplishment of milestones and goals, which the Company reasonably sets for you. The Company will consider whether and when you should receive increases in your compensation and benefits as described therein based on such accomplishments.

You may terminate your employment with the Company at any time and for any reason whatsoever simply by notifying the Company. Likewise, the Company may terminate your employment at any time and for any reason whatsoever, with or without cause or advance notice. This at-will employment relationship cannot be changed except in writing signed by the Chief Executive Officer or the Chief Financial Officer.

Any and all disputes connected with, relating to or arising from your employment with the Company will be settled by final and binding arbitration in accordance with the rules of the American Arbitration Association as presently in force. The only claims not covered by this Agreement are claims for benefits under the unemployment insurance or workers' compensation laws. Any such arbitration will take place in Alameda County, California. The parties hereby incorporate into this agreement all of the arbitration provisions of Section 1283.05 of the California Code of Civil Procedure. The Company understands and agrees that it will bear the costs of the arbitration filing and hearing fees and the cost of the arbitrator. Each side will bear its own attorneys' fees, and the arbitrator will not have authority to award attorneys' fees unless a statutory section at issue in the dispute authorizes the award of attorneys' fees to the prevailing party, in which case the arbitrator has authority to make such award as permitted by the statute in question. The arbitration shall be instead of any civil litigation; this means that you are waiving any right to a jury trial, and that the arbitrator's

decision shall be final and binding to the fullest extent permitted by law and enforceable by any court having jurisdiction thereof. Judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction.

The employment terms in this letter supersede any other agreements or promises made to you by anyone, whether oral or written, express or implied. In the event you accept this employment offer, the terms set forth in this letter will comprise our final, complete and exclusive agreement with respect to the subject matter of this letter. Thus, by accepting this employment offer and signing this offer letter, you agree to be bound by its terms and conditions. As required by law, the Company's offer is subject to satisfactory proof of your right to work in the United States no later than three days after your employment begins.

Please sign and date this letter, and return it to me as soon as possible. This offer terminates if it is not signed and delivered to me by September 2, 2003. A facsimile copy will suffice for this purpose, so long as an original signature is delivered when you commence employment. My confidential facsimile number is (510) 400-0710.

We look forward to your favorable reply and to a productive and enjoyable work relationship.

Sincerely,

/s/ Charles J. Casamento

Charles J. Casamento
Chairman, President and Chief Executive Officer

I hereby acknowledge that I have read the foregoing letter and agree to be bound by all of its terms and conditions:

/s/ R. Jerald Beers
- ------------------
R. Jerald Beers
9/2/03
- ------------------
Date

Exhibit 10.31

CONFIDENTIAL SEPARATION AGREEMENT AND RELEASE

THIS SEPARATION AGREEMENT AND RELEASE (this "Agreement"), dated September 30, 2003 (the "Date of this Agreement"), is entered into by and between Questcor Pharmaceuticals, Inc. (the "Company") and Kenneth R. Greathouse (the "Executive"). The Company and the Executive are sometimes referred to herein as a "Party" or collectively as the "Parties".

WHEREAS, the Executive is employed by the Company as the Company's Senior Vice President, Commercial Operations; and

WHEREAS, Executive and the Company desire to modify and subsequently terminate such employment relationship on the mutually agreed upon terms set forth herein.

For and in consideration of the foregoing recitals and the mutual covenants and agreements set forth herein, the Company and the Executive agree as follows:

1. Resignation.

(a) Effective as of the Date of this Agreement, the Executive hereby resigns from his position as Senior Vice President, Commercial Operations of the Company and from all other executive officer positions then held by the Executive with the Company or any of its direct or indirect subsidiaries, and the Company hereby relieves the Executive of all duties and responsibilities performed by the Executive prior to the Date of this Agreement.

(b) From the Date of this Agreement through March 31, 2004 (the "Date of Resignation"), the Executive shall remain a full-time employee of the Company in a non-executive capacity and shall continue to perform services for the Company as agreed to by Executive and the Chief Executive Officer of the Company.

(c) Effective as of the Date of Resignation, the Executive agrees to resign as an employee of the Company or any of its direct or indirect subsidiaries, at which time the Executive will be relieved of all duties and responsibilities performed by the Executive prior to the Date of Resignation. Executive understands that as of the Date of Resignation he is giving up any right or claim to continuing or future employment with the Company and any benefits or compensation therefrom, except as provided in the Change of Control Agreements (as defined in paragraph 8 of this Agreement).

2. Compensation. From the Date of this Agreement through the Date of Resignation, the Company shall continue to pay Executive his regular salary in the amount of $10,270.84 (ten thousand two hundred seventy-dollars and eighty-four cents), less tax withholding required by law and any additional applicable withholdings or deductions, on a semi-monthly basis in accordance with the Company's payroll practices. Any payment made to Executive in accordance with this Section 2 shall be made only to the extent the General Release set forth in Section 7 becomes irrevocable in accordance with Section 7(c)(6).

3. Accrued Vacation. Executive acknowledges that the balance of the Executive's accrued vacation as of the Date of this Agreement is zero. Executive shall not be entitled to accrue vacation days from the Date of this Agreement through the Date of Resignation.

4. Bonus for 2003. Company agrees to pay to Executive a bonus payment in the amount of $27,000 (twenty-seven thousand dollars) as the total bonus payment for 2003, less tax withholding required by law and any additional applicable withholdings or deductions, in accordance with the Company's payroll practices ("2003 Bonus Payment"). Executive agrees to a deferral of said 2003 Bonus Payment until January 2004. However, in no event will the 2003 Bonus Payment be paid to Executive any later than January 31, 2004. Any payments made to Executive in accordance with this Section 4 shall be made only to the extent the General Release set forth in Section 7 becomes irrevocable in accordance with Section 7(c)(6).

5. Stock Options. The Company has amended Executive's stock options granted to Executive by the Company under the Questcor Pharmaceuticals Incorporated 1992. Stock Option Plan and as set forth in the option agreements dated: May 31, 2000; September 18, 2000; January 12, 2001; May 14, 2001; August 6, 2001; March 13, 2002; and December 18, 2002 (the "Option" or "Options"), to provide that such Options (or portions thereof), to the extent vested on the Date of Resignation, will be exercisable following Executive's resignation from employment with the Company on the Date of Resignation through March 31, 2005 subject to and provided that: (i) this Agreement is executed and delivered by Executive to the Company and (ii) the General Release set forth in Section 7 becomes irrevocable in accordance with Section 7(c)(6). Each of Executive's Options shall continue to vest in accordance with its terms from the Date of this Agreement through the Date of Resignation. Executive acknowledges and understands that to the extent an Option, or any portion thereof, qualifies as an "incentive stock option" under Section 422 of the Internal Revenue Code of 1986, as amended, such Option, or some portion thereof, may cease to qualify or meet the requirements of an incentive stock option upon such amendment and may be deemed a nonqualified stock option as of the effective date of such amendment. Executive acknowledges that he has been advised by the Company to consult his personal tax advisor regarding the tax implications to such amendment to the Options.

6. Benefits. From the Date of this Agreement through the Date of Resignation, Executive shall be entitled to participate in the Company's employee benefit plans as set forth on Exhibit A in a manner consistent with Executive's participation in such plans as of the date immediately prior to the Date of this Agreement and shall, from and after the Date of Resignation, be eligible for continued benefits, at Executive's expense, under COBRA; provided, however, Executive shall be entitled to participate in the Company's employee benefit plans pursuant to this Section 6 only to the extent that General Release set forth in Section 7 becomes irrevocable in accordance with Section 7(c)(6).

7. Release of the Company

a. General Release. In consideration for the payments and the other matters described herein, the receipt and adequacy of which are hereby acknowledged, the Executive, on behalf of himself and his heirs, executors, administrators, successors, agents and assigns, hereby fully and without limitation releases and forever discharges the Company and its shareholders, parents, owners, subsidiaries, divisions, affiliates, officers, directors, agents, employees, consultants, insurers, representatives, lawyers, predecessors, successors and assigns, employee welfare benefit plans and pension or deferred compensation plans under Section 401 of the Internal Revenue Code of 1986, as amended, and their trustees, administrators and other fiduciaries, and all persons acting by, through, under or in concert with them, or any of them (the "Company Releasees"), both individually and collectively, from any and all rights, claims, demands, liabilities, actions, causes of action, damages, losses, costs, expenses and compensation, of whatever nature whatsoever, known or unknown, fixed or contingent ("Claims"), which the Executive may have, or now claims to have against, or in the future claims from the Company Releasees by reason of any matter, cause or thing whatsoever, from the beginning of time to the date hereof, including, without limiting the generality of the foregoing, any Claims arising out of, based upon or relating to the Executive's recruitment, relocation, hire, employment, benefits, remuneration (including salary, bonus, incentive or other compensation, vacation, sick leave or medical insurance benefits, and/or benefits from any employee stock ownership, profit-sharing and/or any deferred compensation plan under Section 401 of the Internal Revenue Code of 1986, as amended) or termination by the Company, or any contract, agreement, or compensation arrangement between the Executive and the Company, other than any obligation created in this Agreement or the Change of Control Agreements (defined in paragraph 8 below); provided, however, if a "Change of Control" (as defined in the Change of Control Agreements) shall not have occurred by December 31, 2003, then such Change of Control Agreements shall terminate and be of no further force or effect and be subject to the General Release contained in this Section 7(a) in all respects, and Executive expressly agrees to release the Company from liability for any and all rights, claims, benefits or awards due Executive under such Change of Control Agreements. As part of this Agreement, the Executive expressly waives any Claims arising out of Title VII of the Civil Rights Act of 1964, as amended, the Equal Pay Act, as amended, the Age Discrimination in Employee Act, as amended, the Family and Medical Leave Act of 1993, the California Fair Employee and Housing Act of 1993, as amended, the California Labor Code (including but not limited to Section 970), the Fair Labor Standards Act, as amended, Section 17200 of the Business and Professions Code, the federal and state wage and hour laws, the Americans With Disabilities Act, as amended, the Immigration Reform and Control Act of 1986, the Employee Retirement Income Security Act of 1974, as amended, the Uniformed Services Employment and Reemployment Rights Act, the Rehabilitation Act of 1973, as amended, the California Family Rights Act, the Worker Adjustment and Retraining Notification Act, the California common law of fraud, misrepresentation, negligence, defamation, infliction of emotional distress, breach of contract, or wrongful termination, and/or any other local, state or federal law, rule or regulation governing employment, discrimination in employment or the payment of wages and benefits. Nothing in this Paragraph shall affect Executive's rights to vested funds held for his benefit in the Company's 401(k) plan.

b. Release of Unknown Claims. The Executive acknowledges that he is aware of California Civil Code Section 1542, which provides as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

With full awareness and understanding of the above provision, the Executive hereby waives any rights he may have under Section 1542, as well as under any other statutes or common law principles of similar effect. The Executive intends to, and hereby does, release the Company Releasees from claims which he does not presently know or suspect to exist at this time.

c. Release of Age Discrimination Claims. Executive agrees and expressly acknowledges that this General Release includes a waiver and release of all claims that Executive has or may have under the Age Discrimination in Employment Act of 1967, as amended, 29 U.S.C. sec. 621, et seq. ("ADEA"). The following terms and conditions apply to and are part of the waiver and release of the ADEA claims under this Agreement:

(1) That this section and this Agreement are written in a manner calculated to be understood by Executive.

(2) The waiver and release of claims under the ADEA contained in this Agreement does not cover rights or claims that may arise after the date on which Executive signs this Agreement.

(3) This Agreement provides for consideration in addition to anything of value to which Executive is already entitled.

(4) Executive is advised to consult an attorney before signing this Agreement.

(5) Executive is granted twenty-one (21) days after Executive is presented with this Agreement to decide whether or not to sign this Agreement. If Executive executes this Agreement prior to the expiration of such period, Executive does so voluntarily and after having had the opportunity to consult with an attorney.

(6) Executive may revoke this Agreement within seven (7) days of execution of the Agreement by Executive. Unless revoked by Executive, this General Release shall become irrevocable upon the expiration of such 7-day period ("Release Effective Date"). In the event of such a revocation, Executive shall not be entitled to the consideration for this General Release set forth in Sections 2, 4, 5, and 6.

d. No Assignment of Claims. Executive represents and warrants to the Company Releasees that there has been no assignment or other transfer of any interest in any Claim which Executive may have against the Company Releasees, and Executive agrees to indemnify and hold the Company Releasees harmless from any liability, claims, demands, damages, costs, expenses and attorneys' fees incurred as a result of any person asserting any such assignment or transfer of any rights or Claims under any such assignment or transfer from such Party.

e. No Suits or Actions. Executive has not filed any claims, actions or charges against the Company Releasees. Executive agrees that if he hereafter commences, joins in, or in any manner seeks relief through any suit arising out of, based upon, or relating to any of the Claims released hereunder, or in any manner asserts against the Company Releasees any of the Claims released hereunder, then he will pay to the Company Releasees, in addition to any other damages caused thereby, all attorneys' fees incurred by the Company Releasees in defending or otherwise responding to said suit or Claim; provided, however, that the requirement of payment of fees and/or damages shall not apply to claims or a challenge to the release of claims under the Age Discrimination in Employment Act.

8. Terminated Agreements. The offer of employment letter dated May 2, 2000, and amendment thereto dated March 25, 2003, entered into between Executive and the Company (the "Terminated Agreement"), are hereby terminated in their entirety and the obligations of the Parties thereunder are hereby terminated, except to the extent provided in the amendments to the Terminated Agreement, dated November 3, 2000 and March 21, 2003, relating to a change in control of the Company (the "Change of Control Agreements"), subject to the provisions of Sections 7 and 10 hereunder. Executive waives any and all rights, claims, benefits and awards under the Terminated Agreement and releases the Company from liability for any and all rights, claims, benefits or awards due Executive thereunder. Executive further acknowledges and agrees that the Terminated Agreement shall have no further force and effect.

9. Confidentiality of the Agreement. The Parties and their respective agents, representatives, shareholders, officers, directors, attorneys, employees, assigns, subsidiaries, affiliates, related companies, parent companies, partners, partnerships, insurers, and predecessor or successor companies shall maintain in strict confidence and shall not disclose the contents of this Agreement (including the consideration received hereunder). Notwithstanding the foregoing, such information may be disclosed by a Party (a) in a legal action or proceeding to prove, interpret, or enforce this Agreement; (b) by order of a court of competent jurisdiction; and (c) to its own employees, outside accountants, financial advisors, lawyers, lenders, potential lenders, insurers, or shareholders and taxing authorities to the extent necessary to permit such individuals or entities to perform required tax, accounting, insurance, financial, legal, or administrative tasks or services.

10. Surviving Agreements. Nothing contained in this Agreement is intended to or shall be construed to release or waive any rights of the Parties under any agreement restricting solicitations of customers or employees of the Company, or concerning the intellectual property of the Company. Company acknowledges that the Change of Control Agreements shall remain in full force and effect through December 31, 2003. Notwithstanding the foregoing, if a "Change of Control" (as defined in the Change of Control Agreements) shall not have occurred by December 31, 2003, then such Change of Control Agreements shall terminate and be of no further force or effect and be subject to the General Release contained in Section 7(a) in all respects, and Executive expressly agrees to release the Company from liability for any and all rights, claims, benefits or awards due Executive under such Change of Control Agreements.

11. No Admission. Executive further understands and agrees that neither the payment of money nor the execution of this Agreement shall constitute or be construed as an admission of any liability whatsoever by the Company Releasees.

12. Acknowledgment. Executive represents and warrants that he (i) has read this Agreement, (ii) has had adequate time to consider this Agreement, (iii) understands the meaning and application of this Agreement, and (iv) has signed this Agreement knowingly, voluntarily and of his own free will with the intent of being bound by it.

13. Severability; Modification of Agreement. If any provision of this Agreement shall be found invalid or unenforceable in whole or in part, then such provisions shall be deemed to be modified or restricted to the extent and in the manner necessary to render the same valid and enforceable or shall be deemed excised from this Agreement as such circumstances may require, and this Agreement shall be construed and enforced to the maximum extent permitted by law as if such provision had been originally incorporated herein as so modified or restricted or as if such provision had not been originally incorporated herein, as the case may be.

14. Proprietary Information; Return of Company Property. The Executive acknowledges that certain information, observations and data obtained by him during the course of or related to his employment with the Company (including, without limitation, financial information, shareholder information, product design information, business plans, marketing plans or proposals and customer lists and other customer information) are the sole property of the Company and constitute trade secrets of the Company. On or before the Date of this Agreement, the Executive agrees to promptly return all files, customer lists, financial information or other Company property which are in the Executive's possession or control without making copies thereof. Notwithstanding the foregoing, Executive may retain the computer equipment formerly located in Executive's office at the Company and currently in the possession of the Executive. The Executive further agrees that he will not disclose to any person or use for his own account any trade secret information, observations or data without the written consent of the Company's Board of Directors, unless and to the extent that the aforementioned matters become generally

known to and available for use by the public, other than as a result of the Executive's acts or omissions to act, which acts or omissions were unauthorized and against the Company's interest. Further, the Executive acknowledges that any unauthorized use of the above described confidential information will cause irreparable harm to the Company and will give rise to an immediate action by the Company for injunctive relief.

15. No Solicitation.

a. For a period of twelve (12) months after the Date of this Agreement, Executive shall not, directly or indirectly, solicit, induce or encourage any of the Company's employees, agents, independent contractors or consultants to end their relationship with the Company.

b. For a period of twelve (12) months after the Date of this Agreement, Executive shall not, directly or indirectly, solicit, induce or encourage any of the Company's customers or potential customers to end their relationship with the Company, or interfere in such customers' or potential customers' relationship with the Company.

16. No Disparagement. The Parties shall not make any disparaging or derogatory comments concerning each other. The Parties shall further refrain from making any derogatory or disparaging comments toward or concerning other Company employees, consultants or independent contractors.

17. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the Parties hereto and their respective successors and assigns. Notwithstanding the foregoing, neither this Agreement nor any rights hereunder may be assigned to any party by the Company or Executive without the prior written consent of the other Party hereto.

18. Headings. The headings in this Agreement are for convenience only, and shall not be given any affect in the interpretation of this Agreement.

19. Waiver. No waiver of any provision of this Agreement shall be valid unless it is in writing and signed by the Party against whom the waiver is sought to be enforced. The failure of a Party to insist upon strict performance of any provision of this Agreement in anyone or more instances shall not be construed as a waiver or relinquishment of the right to insist upon strict compliance with such provision in the future.

20. Entire Agreement; No Oral Modification. This is the entire agreement between the Parties with respect to the subject matter hereof. Executive represents and warrants that no promise or inducement has been offered or made except as expressly set forth herein. Executive acknowledges that (i) the consideration expressly set forth herein is the sole consideration for this Agreement, and (ii) except as expressly set forth herein, Executive shall not be entitled to receive any further compensation and/or benefits from the Company. This

Agreement may not be modified other than in a writing executed by both Parties and stating its intent to modify or supersede this Agreement.

21. Choice of Law. The Parties agree that this Agreement shall be construed and enforced in accordance with the laws of the State of California without regard to the conflict of laws provisions thereof.

22. Arbitration. The Parties agree that any and all disputes, controversies or claims arising out of or relating to this Agreement, or breach thereof, shall be submitted to final and binding arbitration. The arbitration may be compelled and enforced according to the California Arbitration Act (Code of Civil Procedure Sections 1280 et seq.). Unless the Parties mutually agree otherwise, the arbitration shall be conducted before the American Arbitration Association, according to its Employment Arbitration Rules. Judgment on the award the arbitrator renders may be entered in any court having jurisdiction over the Parties. Arbitration shall be initiated in accordance with the Employment Arbitration Rules of the American Arbitration Association.

23. Fees. If any Party to this Agreement brings an action to enforce his or its rights hereunder, the prevailing Party shall be entitled to recover his or its costs and expenses, including attorneys' fees, if any, incurred in connection with such action.

24. Counterparts: Fax Signatures. This Agreement may be executed in counterparts. The Parties may executed faxed copies of this Agreement, and faxed signatures may be relied upon by either Party.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on the dates indicated below.

KENNETH R. GREATHOUSE	QUESTCOR PHARMACEUTICALS, INC.
/s/ KENNETH R. GREATHOUSE	By: /s/ CHARLES J. CASAMENTO
Date: September 30, 2003	Title: CHAIRMAN, PRESIDENT + CEO
	Date: September 30, 2003

EXHIBIT 15.1

November 7, 2003

The Board of Directors
Questcor Pharmaceuticals, Inc.

We are aware of the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-30558, 333-46990, 333-81243, 333-105694 and 333-105693), pertaining to the 1992 Stock Option Plan, the 1993 Non-Employee Directors' Equity Incentive Plan and the 2000 Employee Stock Purchase Plan, and in the Registration Statements on Form S-3 (Nos. 333-102988, 333-85160, 333-61866, 333-25661, 333-32159, 333-23085, 333-17501, 333-03507 and 333-107755) and the related prospectuses, of our report dated October 9, 2003 relating to the unaudited condensed consolidated interim financial statements of Questcor Pharmaceuticals, Inc. that are included in its Form 10-Q for the quarter ended September 30, 2003.

Pursuant to Rule 436(c) of the Securities Act of 1933 our report is not a part of the registration statement prepared or certified by accountants within the meaning of Section 7 or 11 of the Securities Act of 1933.

/s/ Ernst & Young, LLP

Palo Alto, California

EXHIBIT 31

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

I, Charles J. Casamento, certify that:

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

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

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

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

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

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

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: November 12, 2003

/s/ Charles J. Casamento

Charles J. Casamento
Chairman, President and Chief
Executive Officer

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

I, Timothy E. Morris, certify that:

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

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

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

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

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

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

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: November 12, 2003

/s/ Timothy E. Morris

Timothy E. Morris
Chief Financial Officer

EXHIBIT 32

CERTIFICATIONS

On November 10, 2003, Questcor Pharmaceuticals, Inc. filed its Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 (the "Form 10-Q") with the Securities and Exchange Commission. Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the following certifications are being made to accompany the Form 10-Q:

Certification of Chief Executive Officer

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

(i) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2003 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Dated: November 12, 2003

/s/ Charles J. Casamento

Charles J. Casamento
Chief Executive Officer

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

Certification of Chief Financial Officer

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

(i) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2003 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Dated: November 12, 2003

/s/ Timothy E. Morris

Timothy E. Morris
Chief Financial Officer

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