

STOCK ANALYSIS REPORT**Questcor Pharmaceuticals Incorporated (QCOR) – Analysis by Nathan Ramos – November 12, 2009**<http://www.betapeg.com>

Industry: **Biotechnology & Drugs**
Sector: **Healthcare**
Recommendation: **STRONG BUY**
Price: **\$3.49 (as of November 12, 2009)**
Target Price: **\$11.66 or 234.08% undervalued**
52 Week Low-High: **\$3.10-9.81**
Fundamentals Grade: **A**
Investment Style: **Micro Cap Value**
Consider Buying: **When less than \$8.97**

CORPORATE INFORMATION

Location: 3260 Whipple Road
Union City, CA 94587
Phone: 510-4000700
Fax: 510-4000799
Web Site: <http://www.questcor.com/>
Employees: 46
Exchange: NASDAQ

BUSINESS SUMMARY

Questcor Pharmaceuticals, Inc. (QCOR) markets H.P. Acthar Gel (repository corticotropin injection), an injectable drug that is approved for the treatment of certain disorders with an inflammatory component, including the treatment of exacerbations associated with multiple sclerosis (MS), and the treatment of nephrotic syndrome. H.P. Acthar Gel (Acthar) is not indicated for, but is also used in treating patients with infantile spasms (IS). The Company also markets Doral (quazepam), which is indicated for the treatment of insomnia characterized by difficulty in falling asleep, frequent nocturnal awakenings, and/or early morning awakenings. As of December 31, 2008, Acthar was approved in the United States for the treatment of exacerbations associated with MS, nephrotic syndrome and many other conditions with an inflammatory component.

ANALYSIS

Questcor Pharmaceuticals (QCOR) has experienced phenomenal growth over the last five years. Revenues have increased 418%. Profits have increased 448%. Total assets have increased 216%. The Company has no long-term debt and has kept total liabilities far lower than both total and current assets. The Company could pay off all its creditors with cash today and still have plenty left over. A current ratio of 3.33 reflects the Company's strong cash position. Questcor has an excellent earnings yield of 15.67%. Return on equity and profit margin is 32.11% and 39.33% respectively. These results indicate the Company maintains above average profitability. The PE, PB, and PS ratios indicate the Company to be undervalued. Questcor has outperformed 11% of the market in the last 12 months indicating the stock to be substantially undervalued relative to its fundamentals grade of 90%. Questcor is valued at \$11.66 for FY2009. The Company is substantially undervalued for the fiscal year with a current price of \$3.49 (November 12, 2009). Insiders and large institutionals have large stakes in Questcor. There are several risk factors to consider. 99% of net sales come from the sale of one product (Acthar). FDA approval for new drugs from the Company could be rejected. Competition is working to develop drugs which target the same diseases as Questcor. Lower reimbursement rates could negatively affect the Company's financial results. Federal and state healthcare reform initiatives could negatively affect the Company by setting price limits. Consult the 2008 annual report for all risk factors as stated by the Company.

<http://www.annualreports.com/HostedData/AnnualReports/PDF/QUESTCORPHARMAC10K.pdf>

KEY STATISTICS

Dividend Rate per Share:	\$0.00
Dividend Yield:	0.00%
Earnings Yield:	15.67%
EPS (past 12-mo.):	\$0.55
Institutional Ownership:	70%
Market Capitalization:	\$226.36 Mil – Micro Cap
Net Income (past 12-mo.):	\$34.50 Mil
Net Profit Margin:	39.33%
Return on Equity:	32.11%
Revenue (past 12-mo.):	\$89.4 Mil
Total Shares Outstanding:	65.97 Mil

PRICE RATIOS:

Forward P/E:	26.41
PEG:	0.76
PB:	2.86
PE:	6.38
PS:	2.51

FINANCIAL CONDITION:

Current Ratio:	3.33
Debt/Income:	0.00
Debt Ratio:	0.28

PRICE HISTORY*5-Year Price Chart*

The chart indicates a bearish head and shoulders pattern as indicated by the bold lines. The stock can be expected to remain flat or go lower short term as indicated by this pattern. For more information on this pattern, go to <http://www.chartpatterns.com/headandshoulders.htm>.

HISTORICAL FINANCIAL PERFORMANCE AND ESTIMATES (in millions)

Date	2004	2005	2006	2007	2008	2009 Est.
<i>Capital Expenditures</i>	\$0.22	\$2.24	\$4.29	\$0.37	\$0.13	\$0.45
<i>Current Assets</i>	\$13.69	\$29.59	\$23.98	\$71.87	\$79.00	\$110.14
<i>Current Assets/Share</i>	\$0.27	\$0.54	\$0.35	\$1.02	\$1.20	\$1.59
<i>Current Liabilities</i>	\$8.60	\$13.47	\$6.48	\$14.72	\$19.73	\$23.36
<i>Current Liabilities/Share</i>	\$0.17	\$0.25	\$0.09	\$0.21	\$0.30	\$0.33
<i>Current Ratio</i>	1.59	2.20	3.70	4.88	4.00	\$5.01
<i>EPS</i>	-\$0.02	\$0.14	-\$0.15	\$0.54	\$0.61	\$0.73
<i>Free Cash Flow/Share</i>	\$0.03	-\$0.02	-\$0.20	\$0.14	\$0.96	\$1.83
<i>Long-term Debt</i>	\$1.99	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<i>Long-term Debt/Share</i>	\$0.04	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<i>Net Cash Balance</i>	\$8.73	\$20.44	\$15.94	\$15.94	\$13.28	\$15.70
<i>Net Cash/Share</i>	\$0.17	\$0.38	\$0.23	\$0.23	\$0.20	\$0.22
<i>Net Income</i>	-\$0.83	\$7.39	-\$10.11	\$37.59	\$40.53	\$49.83
<i>Net Profit Margin</i>	-4.51%	52.19%	-79.05%	75.53%	42.55%	48.50%
<i>Operating Cash Flow</i>	\$1.76	\$1.37	-\$9.73	\$10.17	\$63.51	\$66.03
<i>PB</i>	1.63	3.43	4.80	6.58	8.42	\$11.03
<i>PE</i>	-32.71	7.66	-10.06	10.82	14.11	\$26.41
<i>PS</i>	1.48	4.00	7.95	8.17	6.00	\$8.78
<i>Revenue/Share</i>	\$0.36	\$0.26	\$0.19	\$0.71	\$1.44	\$1.88
<i>Sales (millions)</i>	\$18.40	\$14.16	\$12.79	\$49.77	\$95.25	\$129.13
<i>Shares Outstanding</i>	51.22	54.46	68.74	70.12	65.97	72.00
<i>Stock Price</i>	\$0.53	\$1.04	\$1.48	\$5.80	\$8.67	\$11.66
<i>Total Assets</i>	\$28.17	\$31.35	\$29.64	\$78.45	\$89.15	\$112.22
<i>Total Assets/Share</i>	\$0.55	\$0.58	\$0.43	\$1.12	\$1.35	\$1.61
<i>Total Equity</i>	\$16.66	\$16.50	\$21.18	\$61.85	\$67.89	\$89.55
<i>Total Equity/Share</i>	\$0.33	\$0.30	\$0.31	\$0.88	\$1.03	\$1.29
<i>Total Liabilities</i>	\$11.51	\$14.85	\$8.46	\$16.60	\$21.25	\$23.90
<i>Total Liabilities/Share</i>	\$0.22	\$0.27	\$0.12	\$0.24	\$0.32	\$0.34

RELATIVE STRENGTH

Questcor has outperformed 11% of the market in the last 12 months indicating the stock to be substantially undervalued relative to its fundamentals grade of 90%.

STOCK PRICE VALUATION**Stock Price Estimates (FY2009)**

Methodologies	Intrinsic Values	Discount Rates
<i>PE</i>	\$19.25	451.69%
<i>PEII</i>	-\$1.25	-135.82%
<i>PS</i>	\$16.49	372.55%
<i>PSII</i>	\$15.74	351.00%
<i>PSIII</i>	\$7.97	128.41%
<i>PB</i>	\$13.72	292.99%
<i>PBII</i>	\$5.12	46.64%
<i>Market Ratio</i>	\$8.67	148.42%
<i>FS</i>	\$15.52	344.68%
<i>Gamma</i>	\$28.55	718.18%
<i>Inverse Gamma</i>	\$6.55	87.78%
<i>52 Week</i>	\$10.39	197.62%
<i>Stock Price I</i>	\$10.71	206.73%
<i>Stock Price II</i>	\$9.82	181.26%
<i>Stock Price III</i>	\$19.07	446.48%
<i>Free Cash Flow</i>	\$16.51	372.99%
<i>Revenue</i>	\$11.28	223.33%
<i>Total Equity</i>	\$10.85	210.94%
<i>Earnings</i>	\$10.29	194.79%
<i>Cash</i>	\$9.46	170.98%
<i>Current Assets</i>	\$11.53	230.31%
<i>Current Liabilities</i>	\$7.63	118.76%
<i>Current Ratio</i>	\$10.86	211.14%
<i>Profit Margin</i>	\$9.88	183.13%
<i>Total Assets</i>	\$10.35	196.47%
<i>Total Liabilities</i>	\$8.19	134.55%
Target Price	\$11.66	234.08%

Questcor is valued at \$11.66 for FY2009. The Company is substantially undervalued for the fiscal year with a current price of \$3.49 (November 12, 2009).

COMPETITION

Growth Rates %	Company	Industry	S&P 500
Sales (Qtr vs year ago qtr)	-42.8	20.7	-5.2
Net Income (YTD vs YTD)	-4.3	28.3	-10.1
Net Income (Qtr vs year ago qtr)	-86.3	18.3	27.2
Sales (5-Year Annual Avg.)	46.61	28.74	13.14
Net Income (5-Year Annual Avg.)		3.08	12.54
Dividends (5-Year Annual Avg.)		1.28	11.83
Price Ratios	Company	Industry	S&P 500
Current P/E Ratio	6.9	18.8	27.8
P/E Ratio 5-Year High	22.8	68.4	19.3
P/E Ratio 5-Year Low	7.1	15.3	3.5
Price/Sales Ratio	2.53	612.33	2.09
Price/Book Value	2.89	7.83	3.42
Price/Cash Flow Ratio	6.5	18.8	13.2
Profit Margins %	Company	Industry	S&P 500
Gross Margin	92.2	1.8	37.9
Pre-Tax Margin	51.9	-3,485.20	9.6
Net Profit Margin	38.5	2	6.7
5Yr Gross Margin (5-Year Avg.)	88.2	70.5	37.8
5Yr PreTax Margin (5-Year Avg.)	41.2	-3,761.70	16.6
5Yr Net Profit Margin (5-Year Avg.)	39.2	-3,767.50	11.5
Financial Condition	Company	Industry	S&P 500
Debt/Equity Ratio			
Current Ratio	3.4	4.2	1.5
Quick Ratio	3.2	3.8	1.2
Interest Coverage		198.2	27.1
Leverage Ratio	1.4	2	3.6
Book Value/Share	1.22	12.71	21.68
Investment Returns %	Company	Industry	S&P 500
Return On Equity	55.1	-17.5	14.6
Return On Assets	38.4	-23.4	5.5
Return On Capital	53.9	-10.8	7.7
Return On Equity (5-Year Avg.)	52.8	-24.2	19.3
Return On Assets (5-Year Avg.)	33.3	-6.2	7.9
Return On Capital (5-Year Avg.)	44.1	-5.3	10.7

INSIDER ACTIVITY

The following corporate insiders or major shareholders have recently filed transaction reports with the SEC.

Recent Insider Trading Activity: Questcor Pharmaceuticals Inc

Date	Name	Transaction	Num Shares	Price(s)	Value
08/05/09	MEDEIROS DAVID JEFFREY	Sold	300,000	\$6.29	1.89 Mil
08/04/09	CARTT STEPHEN LAHUE	Sold	250,000	\$6.08	1.52 Mil
08/04/09	CARTT STEPHEN LAHUE	Exercise	250,000	\$0.46	115,000.00
12/10/08	CARTT STEPHEN LAHUE	Sold	100,000	\$9.50	950,000.00
12/10/08	CARTT STEPHEN LAHUE	Exercise	100,000	\$0.46	46,000.00
12/10/08	THOMPSON VIRGIL D	Sold	52,500	\$9.40	493,736.25
12/10/08	THOMPSON VIRGIL D	Exercise	52,500	\$0.62	32,550.00
12/03/08	HALLADAY STEVEN C	Sold	260,416	\$8.92	2.32 Mil
12/03/08	HALLADAY STEVEN C	Exercise	260,416	\$1.10	286,457.59

MAJOR HOLDERS**BREAKDOWN**

% of Shares Held by All Insider and 5% Owners:	25%
% of Shares Held by Institutional & Mutual Fund Owners:	71%
% of Float Held by Institutional & Mutual Fund Owners:	94%
Number of Institutions Holding Shares:	127

TOP INSTITUTIONAL HOLDERS

Holder	Shares	% Out	Value*	Reported
THOMPSON, SIEGEL & WALMSLEY, INC.	3,929,631	6.13	\$19,648,155	30-Jun-09
VANGUARD GROUP, INC. (THE)	3,515,729	5.49	\$17,578,645	30-Jun-09
Barclays Global Investors UK Holdings Ltd	3,124,558	4.87	\$15,622,790	30-Jun-09
GOLDMAN SACHS GROUP INC	2,349,856	3.67	\$11,749,280	30-Jun-09
WALL STREET ASSOCIATES	1,722,600	2.69	\$8,613,000	30-Jun-09
ACCIPITER CAPITAL MANAGEMENT	1,574,968	2.46	\$7,874,840	30-Jun-09
Bank of New York Mellon Corporation	1,545,053	2.41	\$7,725,265	30-Jun-09
ROTHSCHILD ASSET MANAGEMENT INC	1,262,660	1.97	\$6,313,300	30-Jun-09

TOP MUTUAL FUND HOLDERS

Holder	Shares	% Out	Value*	Reported
HEARTLAND VALUE FUND	1,000,000	1.56	\$5,000,000	30-Jun-09
ISHARES RUSSELL 2000 INDEX FD	843,134	1.32	\$4,654,099	30-Sep-09
VANGUARD SMALL-CAP INDEX FUND	721,284	1.13	\$3,606,420	30-Jun-09
VANGUARD STRATEGIC EQUITY FUND	699,315	1.09	\$3,496,575	30-Jun-09
ISHARES NASDAQ BIOTECHNOLOGY INDEX FUND	684,467	1.07	\$3,778,257	30-Sep-09
JNL Variable LLC-JNL/Mellon Cap JNL 5 Fd	621,000	.97	\$3,105,000	30-Jun-09
Powershares Exhg Traded Fd-Dynamic Pharmaceuticals Port	565,920	.88	\$2,546,640	30-Apr-09
VANGUARD TOTAL STOCK MARKET INDEX FUND	529,200	.83	\$2,646,000	30-Jun-09
VANGUARD SMALL-CAP GROWTH INDEX FUND	458,302	.72	\$2,291,510	30-Jun-09

OFFICERS AND DIRECTORS

Don M. Bailey	President, Chief Executive Officer, Director
Gary M. Sawka	Chief Financial Officer, Senior Vice President - Finance
Stephen L. Cartt	Executive Vice President - Corporate Development
David J. Medeiros	Senior Vice President - Pharmaceutical Operations
Steven C. Halladay Ph.D.	Senior Vice President - Clinical and Regulatory Affairs
David Young Ph.D.	Chief Scientific Officer
Carol Trapnell	Interim Chief Medical Officer
Virgil D. Thompson	Director
Neal C. Bradsher	Director
Gregg Anthony Lapointe CPA	Director

GLOSSARY

Bear Market: Market dominated by sellers.

Beta: A measure of stock price history relative to the market price history which indicates volatility. A company with a beta of 1 would be as volatile as the market. A beta less than one indicate less volatility to the market. The higher the beta, the more volatile a stock price is.

Bull Market: Market dominated by buyers.

Dividend Rate per Share: The amount of dividends paid per share.

Dividend Yield: The dividend return as a percentage of the stock price.

Earnings: The amount of profits that a company produces during a specific period.

Earnings per Share (EPS): Total earnings divided by all shares outstanding.

Fair Value: The price at which a stock is intrinsically valued.

Fiscal Year: Any 12-month period that a company uses for accounting purposes.

Forward P/E: Same as the traditional P/E except the estimated future EPS is used. If earnings are expected to grow in the future, the estimated P/E will be lower than the current P/E.

Fundamental Analysis: Method of stock analysis in which the company data is used to place an *intrinsic value* of the stock. This value is compared to the current market price. If the *intrinsic value* is less than the market price, the stock is undervalued, indicating a potential buy position.

Fundamental Grade: A grading system used to evaluate the quality of a company based on fundamental analysis.

Industry: A category used to describe a company's primary business activity.

Insider Activity: Corporate insiders (i.e. CEOs, executives, etc.) and major shareholders transactions of stock.

Institutional Investor: A non-bank investor who trades stocks in such large amounts that they require special treatment and lower commissions.

Institutional Ownership: The percentage of institutional investors who have a position in stock.

Intrinsic Value: The actual value of a stock based on tangible and intangible aspects of the company.

Investment Style: A classification used to indicate what kind of investors the stock is most attractive too. There are nine categories and they include:

- Large value
- Large blend
- Large growth
- Medium value
- Medium blend
- Medium growth
- Small value
- Small blend
- Small growth

Market Capitalization: The market value of a company is the value of its outstanding shares. This figure is found by taking the stock price and multiplying it by the total number of shares outstanding.

Outstanding Shares: Stock currently held by investors.

Price/Earnings (PE) Ratio: A valuation ratio of a company's current share price compared to its per-share earnings.

Calculated as:

$$= \frac{\text{Market Value per Share}}{\text{Earnings per Share (EPS)}}$$

The P/E ratio is a comparison of the stock price and earning. The lower the P/E, the better valued the company relative to earnings.

Price/Sales (P/S) Ratio: A ratio for valuing a stock relative to its own past performance. Price to sales is calculated by dividing a stock's current price by its revenue per share for the trailing 12 months:

$$\text{PSR} = \frac{\text{Share Price}}{\text{Revenue Per Share}}$$

Revenue: The income that comes directly from business operations.

Sector: A group of stocks in the same industry or market.

Target Price: An analyst's estimated stock price for a given period of time.

Technical Analysis: Method of stock analysis in which stock price data is used to determine trends. Charting the stock price history indicates up trends (buy), down trends (sell), and flat trends (even). Support lines drawn along lows and resistance lines drawn along highs indicate the time to buy and sell.

Trailing Twelve Months (ttm): A sum of a metric over the last twelve months. EPS (ttm) is earnings per share over the last twelve months.

Volatility: A measure of the fluctuations in stock price. The higher the volatility, the more you can win and lose. *Betas* higher than 1 are more volatile than the market. If the market goes up 1%, a stock with a beta = 3 would likely go up 3%. Likewise, the same the can be true for declines.

SOURCES OF INFORMATION

1. <http://www.investopedia.com>
 2. <http://www.moneycentral.msn.com>
 3. <http://www.finance.yahoo.com>
 4. <http://www.finance.google.com>
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ANALYTICAL METHODOLOGY

This stock report is based on the financial models developed by Nathan Ramos and available to the public at www.betapeg.com. Ratings are based on a ratio of fundamentals to valuation. Highly rated stocks have excellent fundamentals and high valuation relative to market value while low rated stocks have weak fundamentals and low valuation relative to market value.

DISCLAIMER

This document was prepared by Nathan Ramos, a non-certified stock analyst. The material contained is based upon information considered to be accurate but is not warranted by its source. Any opinions expressed are in good faith and are only correct as of the stated date of the report. This report serves as a guide to researching a particular company and does not serve any professional advisory function whatsoever.