CERUS CORP
Form 10-Q
July 31, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2008

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 0-21937

CERUS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**68-0262011**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2411 Stanwell Drive

Concord, California 94520

(Address of principal executive offices, including Zip Code)

(925) 288-6000

(Registrant s telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x

As of July 29, 2008, there were 32.5 million shares of the registrant s common stock outstanding.

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CERUS CORPORATION

QUARTERLY REPORT ON FORM 10-Q

THREE AND SIX MONTHS ENDED JUNE 30, 2008

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CERUS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	June 30, 2008 (Unaudited)	December 31, 2007 (see Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 22,405	$ 19,625
Short-term investments	16,564	37,225
Accounts receivable	7,337	7,772
Inventories	11,991	7,062
Prepaid and other current assets	1,377	2,218
Total current assets	59,674	73,902
Non-Current assets:		
Property and equipment, net	1,718	1,322
Long-term investment in related party	1,983	1,874
Other assets	835	1,111
Total assets	64,210	78,209
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 6,213	$ 10,107
Accrued liabilities	9,895	6,679
Deferred revenue	60	1,504
Capital lease obligation	17	30
Total current liabilities	16,185	18,320
Non-Current Liabilities		
Capital lease obligation		2
Other non-current liabilities	213	
Total liabilities	16,398	18,322
Stockholders equity		
Preferred stock	9,496	9,496
Common stock	32	32
Additional paid-in capital	409,254	407,010
Accumulated other comprehensive income	141	75
Accumulated deficit	(371,111)	(356,726)
Total stockholders equity	47,812	59,887
Total liabilities and stockholders equity	$ 64,210	$ 78,209

See notes to condensed consolidated financial statements.

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CERUS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

UNAUDITED

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenue:				
Product revenue	$ 4,030	$ 1,671	$ 8,882	$ 2,858
Government grants and cooperative agreement		1,551	117	2,615
Total revenue	4,030	3,222	8,999	5,473
Cost of product revenue	3,077	1,067	4,791	1,891
Gross profit	953	2,155	4,208	3,582
Operating expenses:				
Research and development	2,670	3,559	5,454	6,825
Selling, general and administrative	7,439	6,151	14,540	11,473
Impairment of long-term investment in related party		9,450		9,450
Total operating expenses	10,109	19,160	19,994	27,748
Loss from operations	(9,156)	(17,005)	(15,786)	(24,166)
Interest income and other, net	63	996	1,401	2,084
Loss from continuing operations	(9,093)	(16,009)	(14,385)	(22,082)
Discontinued operations:				
Loss from discontinued operations		(1,906)		(2,641)
Loss from discontinued operations		(1,906)		(2,641)
Net loss	$ (9,093)	$ (17,915)	$ (14,385)	$ (24,723)
Per share information:				
Loss from continuing operations per share basic and diluted	$ (0.28)	$ (0.50)	$ (0.44)	$ (0.70)
Loss from discontinued operations per share basic and diluted	$	$ (0.06)	$	$ (0.08)
Net loss per share basic and diluted	$ (0.28)	$ (0.56)	$ (0.44)	$ (0.78)
Weighted average common shares outstanding used for basic and per share information:				
Basic	32,450	31,810	32,330	31,790
Diluted	32,450	31,810	32,330	31,790

See notes to condensed consolidated financial statements.

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CERUS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

(in thousands)

	Six Months Ended June 30,	
	2008	**2007**
Operating activities:		
Net loss	$ (14,385)	$ (24,723)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	258	420
Stock-based compensation to employees	1,029	1,034
Impairment of long-term investment in related party		9,450
Changes in operating assets and liabilities:		
Accounts receivable	435	(3,114)
Inventories	(4,929)	(2,257)
Other assets	1,051	766
Deferred gain		(586)
Accounts payable and accrued expenses	(576)	(31)
Deferred revenue	(1,444)	32
Net cash used in operating activities	(18,561)	(19,009)
Investing activities:		
Purchases of furniture, equipment and leasehold improvements	(686)	(244)
Purchases of short-term investments	(2,285)	(15,252)
Sales of short-term investments	9,021	788
Maturities of short-term investments	13,990	20,428
Net cash provided by investing activities	20,040	5,720
Financing activities:		
Net proceeds from issuance of common stock, ESPP, stock options and restricted stock units	1,216	340
Payments on capital lease obligations	(15)	(51)
Issuance cost for credit facility	(25)	
Proceeds from note payable	125	
Net cash provided by financing activities	1,301	289
Net increase (decrease) in cash and cash equivalents	2,780	(13,000)
Cash and cash equivalents, beginning of period	19,625	46,287
Cash and cash equivalents, end of period	$ 22,405	$ 33,287

See notes to condensed consolidated financial statements.

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CERUS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include those of Cerus Corporation and its wholly-owned subsidiary, Cerus Europe B.V., which are referred to together as the Company , after elimination of all intercompany accounts and transactions. These condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accrual adjustments and reclassifications, considered necessary for a fair presentation have been included. These adjustments did not have a material impact on the Company s results of operations or financial position. The results of the Company s former immunotherapy business, which was sold to a newly-formed company in November 2007, are recorded as a discontinued operation in the accompanying condensed consolidated financial statements for all periods presented. As such, results previously reported have been restated to reflect the discontinued operation treatment of the immunotherapy business. Operating results for the three and six-month periods ended June 30, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008, or for any future period.

These condensed consolidated financial statements and notes should be read in conjunction with our audited financial statements and notes thereto for the year ended December 31, 2007, included in our Annual Report on Form 10-K for the year then ended. The accompanying balance sheet as of December 31, 2007, has been derived from our audited financial statements as of that date.

Use of Estimates

The preparation of financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, inventory valuation, accrued liabilities, non-cash stock compensation assumptions, and income taxes, which are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from those estimates under different assumptions or conditions.

Revenue and Research and Development Expenses

The Company recognizes revenue in accordance with the SEC s published Staff Accounting Bulletin No. 104, Revenue Recognition or SAB 104, and Emerging Issues Task Force Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables, or EITF 00-21, as applicable. Revenue is recognized when (i) persuasive evidence of an agreement with the funding party exists; (ii) services have been rendered or product has been delivered; (iii) pricing is fixed or determinable; and (iv) collection is probable.

The Company s main sources of revenues through June 30, 2008, have come from product revenue from sales of the INTERCEPT Blood System, research and development activities and agreements, United States government grants and awards, and commercialization agreements.

Revenue related to product sales is generally recognized when the Company fulfills its obligations for each element of an agreement. For all INTERCEPT Blood System sales, the Company uses a binding purchase order or signed sales contract as evidence of written agreement. The Company sells INTERCEPT Blood System directly to blood banks, hospitals, universities, government agencies, as well as to distributors in certain regions. Generally, the Company s contracts with its customers do not provide for open return rights, except within a reasonable time after receipt of goods in the case of defective product. Deliverables and the units of accounting vary according to the provisions of the agreement. For revenue arrangements with multiple elements, the Company evaluates whether the delivered elements have standalone value to the customer, whether the fair value of the undelivered elements is reliably determinable, and whether the delivery of the

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remaining elements is probable and within the Company s control. When all of these conditions are met, the Company recognizes the revenue on the delivered elements. If these conditions are not met, the Company defers revenue until such time as all of the conditions have been met or all of the elements have been delivered. Consideration received is allocated to elements that are identified as discrete units of accounting based on the relative fair value method. At June 30, 2008 and December 31, 2007, the Company had $60,000 and $1.5 million of short-term deferred revenue on its condensed consolidated balance sheets, respectively. Freight costs charged to customers are recorded as a component of revenue under EITF 00-10, Accounting for Shipping and Handling Fees and Costs . Value-added-taxes (VAT) that the Company invoices to its customers and remits to governments are recorded on a net basis, which is excluded from product revenue.

The Company receives certain United States government grants that support the Company s efforts in defined research projects. These grants generally provide for reimbursement of approved costs incurred as defined in the various grants. Revenue associated with these grants is recognized as costs under each grant are incurred. In accordance with Statement of Financial Accounting Standards No. 2, Accounting for Research and Development Expenses, research and development expenses are charged to expense when incurred. Research and development expenses include salaries and related expenses for scientific personnel, payments to consultants, supplies and chemicals used in in-house laboratories, costs of research and development facilities, depreciation of equipment and external contract research expenses, including clinical trials, preclinical safety studies, other laboratory studies, process development and product manufacturing for research use.

The Company s use of estimates in recording accrued liabilities for research and development activities (described previously in this Note under the heading Use of Estimates) affects the amounts of research and development expenses recorded and revenue recorded from development funding and government grants and collaborative agreements. Actual results may differ from those estimates under different assumptions or conditions.

Cash, Cash Equivalents and Short-Term Investments

The Company considers all highly liquid investments with an original maturity of three months or less from the date of purchase to be cash equivalents. Cash equivalents consist principally of short-term money market instruments and commercial paper.

In accordance with Statement of Financial Accounting Standards (FASB) No. 115, Accounting for Certain Investments in Debt and Equity Securities, the Company has classified all debt securities as available-for-sale at the time of purchase and reevaluates such designation as of each balance sheet date. Available-for-sale securities are carried at estimated fair value based on quoted market prices. The Company reports the amortization of any premium and accretion of any discount resulting from the purchase of debt securities as a component of interest income (expense) and other, net. The Company s available-for-sale securities consist primarily of corporate debt securities and U.S. government agency securities.

Unrealized gains and losses at June 30, 2008, and December 31, 2007 are reported in accumulated other comprehensive income (loss) on the Company s condensed consolidated balance sheets. The Company reviews all of its marketable securities on a regular basis to evaluate whether any security has experienced an other-than-temporary decline in fair value. During the three and six months ended June 30, 2008, the Company realized losses of $0.2 million and $0.3 million, respectively, on the sale of certain securities collateralized by domestic mortgages. The Company had recorded other-than-temporary impairments on these securities totaling $0.2 million in periods prior to the sale of such securities. See Note 2 regarding the inputs used to determine the fair value of the Company s investments. The cost of securities sold is based on the specific identification method.

As of June 30, 2008, the Company also maintained a certificate of deposit for approximately $0.2 million with a domestic bank. The Company holds this certificate of deposit for any potential decommissioning resulting from the Company s possession of radioactive material. The certificate of deposit is held to satisfy the financial surety requirements of the California Department of Health Services and is recorded within other long-term assets on its condensed consolidated balance sheets at June 30, 2008 and December 31, 2007.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, short-term investments and accounts receivable.

Substantially all of the Company s cash, cash equivalents and short-term investments are maintained pursuant to the Company s investment policy by a major financial institution of high credit standing. The Company monitors the financial credit worthiness of the issuers of its investments and limits the concentration in individual securities and type of investments

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that exist within its investment portfolio. All of the Company s investments carry high credit quality ratings, in accordance with its investment policy. At June 30, 2008, the Company does not believe there is significant financial risk from non-performance by the issuers of the Company s cash equivalents and short-term investments.

Concentrations of credit risk with respect to trade receivables exist to the full extent of amounts presented in the condensed consolidated financial statements. The Company performs ongoing credit evaluations of its customers and does not generally require collateral from its customers to secure accounts receivable. The Company provides an allowance for estimated losses on receivables based on a review of the current status of existing receivables and historical collection experience. Actual collection losses may differ from management s estimate, and such differences could be material to the Company s financial position and results of operations. At June 30, 2008 and December 31, 2007, two customers each represented more than 10% of the Company s outstanding trade receivables. One of these customers represented approximately 46% and 28%, respectively, of outstanding trade receivables, while the other customer represented approximately 16% and 13% of outstanding trade receivables, respectively. To date, the Company has not experienced collection difficulties from either of these customers. In addition, four customers represented approximately 69% and 65% of our product sales for the three and six months ended June 30, 2008, respectively. During the three and six months ended June 30, 2007, one customer represented approximately 15% and 22%, respectively, of our product sales.

Inventories

At June 30, 2008, inventory consisted of finished goods of INTERCEPT disposable kits, components thereof, illuminators, and certain replacement parts for the illuminators. Inventory is recorded at the lower of cost or market value, determined on a first in, first-out basis. Platelet and plasma system disposable kits generally have a two-year life from date of manufacture, whereas illuminators and replacement part do not have regulated expiration dates. The Company periodically reviews the composition of inventory in order to identify obsolete, slow-moving or otherwise unsalable items. To the extent unsalable items are observed and there is no alternative use, the Company will record a write-down to net realizable value in the period that the impairment is first recognized. At June 30, 2008 and 2007, the Company had written down approximately $61,000 and $32,000, respectively, associated with potentially obsolete or expiring product.

Property and Equipment, net

Property and equipment is comprised of furniture, equipment, information technology hardware and software and is recorded at cost. At the time the property and equipment is ready for its intended use, it is depreciated on a straight-line basis over the estimated useful lives of the assets (generally three to five years). Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the estimated useful lives of the improvements.

Long-Term Investments

BioOne Corporation

The Company accounted for its long-term investment under the either the cost method of accounting or equity method of accounting in accordance with Accounting Principles Bulletin No.18, The Equity Method of Accounting for Investments in Common Stock, or APB 18, and Financial Accounting Standards Board Interpretation No. 35, Criteria for Applying the Equity Method of Accounting for Investment in Common Stock, or FIN 35. At June 30, 2008, the Company held approximately 13% interest in the voting securities of BioOne Corporation, or BioOne and accounted for its investment in BioOne under the cost method. At June 30, 2007, the Company held approximately 20% of the voting securities of BioOne. The Company regularly evaluates several criteria in determining whether or not it has the ability to exercise significant influence over the operating and financial policies of BioOne. These criteria include but are not limited to: limited availability of and infrequency of access to financial information of BioOne, majority shareholder mix in BioOne, and the Company s lack of representation on BioOne s board of directors. As a result of its evaluations, at June 30, 2008 and December 31, 2007, the Company has accounted for its investment under the cost method, as it has concluded that predominant evidence exists to support this conclusion.

In July, 2007, BioOne completed an equity financing on terms reflecting a valuation substantially below the valuations of previous rounds of financing. As a consequence, the Company recorded a $9.5 million non-cash impairment charge on the carrying value of its equity interest in BioOne during the three months ended June 30, 2007. The Company s investment in BioOne is included in long-term investment in related party on its balance sheet at $2.0 million and $1.9 million at June 30, 2008 and December 31, 2007, respectively. The Company evaluates several criteria to determine the fair value of the equity received. In addition, the Company evaluates several criteria on an ongoing basis to determine and whether or not the facts

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and circumstances support the carrying value of the investment balance. These criteria include, but are not limited to: third-party investor interest and participation in recent equity offerings at current pricing, business outlook of BioOne, and available financial information. To the extent that the criteria used to support the carrying value of the Company s investment in BioOne s equity at June 30, 2008, deteriorate, the Company will reassess the recorded basis of its investment in BioOne.

Anza Therapeutics, Inc.

In November 2007, the Company sold its immunotherapy business to Anza Therapeutics, Inc., or Anza, which received initial funding from a syndicate of venture capital firms, including Kleiner Perkins Caufield & Byers, Sofinnova Ventures and Versant Ventures. The Company sold certain tangible and intangible assets in connection with this sale, consisting primarily of certain laboratory equipment and intellectual property. In exchange for the tangible and intangible assets, the Company received 5,000,000 shares of Series AA Preferred Stock, constituting an equity interest of approximately 17.8% of Anza s outstanding equity (15.5% fully diluted). Of this, up to 1,000,000 shares is to be returned to Anza if the size of certain government grants is less than an amount specified in the sale agreement. The Series AA Preferred Stock is non-voting and has no rights of representation on Anza s board of directors, but otherwise generally carries the same rights and privileges as the Series A Preferred Stock of Anza purchased by the venture capital investors. In addition to equity, the Company is eligible to receive future cash milestone payments of up to $94.0 million, as well as low single-digit royalty payments, if certain vaccine candidates generated from the transferred assets are successfully developed and commercialized. Of the milestone payments for which the Company is eligible, $90.0 million is payable only upon reaching specified annual sales levels within a certain number of years of product launch for the first two products brought to market incorporating Anza s proprietary Listeria technology.

The Company has not assigned any value to the equity interest it received in Anza, due to the lack of marketability of the equity received, the early stage of development of Anza s potential products, and the high degree of uncertainty regarding the future marketability of the equity the Company received, and the uncertainty that the Company will receive any milestone or royalty payments, which are dependent on Anza s successful commercialization of certain product candidates.

The Company has accounted for its immunotherapy business as a discontinued operation, and has restated its financial statements for prior periods to reflect the discontinued operation. The Company is providing certain transition services to Anza, generally for less than one year, under terms of a transition services agreement under which Anza agreed to reimburse the Company for its direct costs associated with providing such services. The transition services the Company is providing to Anza are generally ancillary in nature and do not involve Anza s core business or any scientific research or development. The Company also subleased 14,800 square feet to Anza under a sublease that expires on October 31, 2008, unless terminated sooner.

Foreign Currency Remeasurement

The functional currency of the Company s foreign subsidiary is the U.S. Dollar. Monetary assets and liabilities denominated in foreign currencies are remeasured in U.S. Dollars using the exchange rates at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are remeasured in U.S. Dollars at historical exchange rates. Revenues and expenses are remeasured using average exchange rates prevailing during the period. Remeasurements are recorded in the Company s condensed consolidated statements of operations as a component of interest income and other, net. The Company recorded $0.1 million foreign currency loss and $0.8 million in foreign currency gains during the three and six months ended June 30, 2008, respectively, and $40,000, and $50,000 in foreign currency gains during the three and six months ended June 30, 2007, respectively.

Stock-Based Compensation

The Company maintains stock compensation plans as long-term incentives for employees, contractors, members of the Board of Directors, and members of the Scientific Advisory Board. These plans allow for the issuance of non-statutory and incentive stock options, rights to acquire restricted stock, and stock bonuses. The Company also maintains an active employee stock purchase plan within the meaning of Section 423(b) of the Internal Revenue Code.

The Company accounts for stock-based compensation in accordance with FASB Statement of Financial Accounting Standards No. 123R, Share-Based Payment, or FAS 123R. Under the fair value recognition provisions of FAS 123R, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. Total stock-based compensation recognized on the Company s condensed consolidated statement of operations impacted net loss per common share for the three and six months ended June 30, 2008 by $0.01 and $0.03, respectively, and impacted loss per share for the three and six months ended June 30, 2007, by $0.02 and $0.03, respectively.

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See Note 8 for further information regarding our stock-based compensation assumptions and expenses.

The Company applies the provisions of EITF 96-18, Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services, or EITF 96-18, for its non-employee stock-based awards. Under EITF 96-18, the measurement date at which the fair value of the stock-based award is measured is equal to the earlier of 1) the date at which a commitment for performance by the counter party to earn the equity instrument is reached or 2) the date at which the counter party s performance is complete. The Company recognizes stock-based compensation expense for the fair value of the vested portion of the non-employee awards in its condensed consolidated statements of operations.

Other Comprehensive Income (Loss)

Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income establishes the standards of reporting and displaying comprehensive income (loss) and its components in the condensed consolidated financial statements. The components of comprehensive income (loss) include net income (loss) and other comprehensive income (loss). The Company s only component of other comprehensive income for the three and six months ended June 30, 2008 and 2007 consisted of unrealized gains from the Company s available-for-sale short-term investments. Other comprehensive income (loss) is reported as a separate component of stockholders equity.

Income Taxes

The Company accounts for income taxes based upon Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, or FAS 109. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Effective January 1, 2007, FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, or FIN 48, became effective for the Company. FIN 48 requires derecognition of tax positions that do not have a greater than 50% likelihood of being recognized upon review by a taxing authority having full knowledge of all relevant information. Use of a valuation allowance as described in FAS 109 is not an appropriate substitute for the derecognition of a tax position. Upon adoption of FIN 48, the Company s policy to include interest and penalties related to unrecognized tax benefits within our provision for income taxes did not change. The adoption of FIN 48 has not resulted in any significant impact to the Company. The Company continues to carry a full valuation allowance on all of its deferred tax assets. The tax years 2004 through 2007 remain subject to examination by the taxing jurisdictions to which the Company is subject.

Net Income (Loss) Per Share Basic and Diluted

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share reflects the assumed conversion of all dilutive securities, such as stock options, restricted stock units and convertible preferred stock, if dilutive.

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The following table sets forth the reconciliation of the numerator and denominator used in the computation of basic and diluted net loss per common share (in thousands, except per share amounts):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Numerator:				
Loss from continuing operations	$ (9,093)	$ (16,009)	$ (14,385)	$ (22,082)
Loss from discontinued operations		(1,906)		(2,641)
Net loss	$ (9,093)	$ (17,915)	$ (14,385)	$ (24,723)
Denominator:				
Basic weighted average number of common shares outstanding	32,450	31,810	32,330	31,790
Effect of dilutive potential common shares resulting from stock options, unvested restricted common stock and ESPP shares				
Diluted weighted average number of common shares outstanding	32,450	31,810	32,330	31,790
Loss per common share from continuing operations basic and diluted	$ (0.28)	$ (0.50)	$ (0.44)	$ (0.70)
Loss per common share from discontinued operations basic and diluted	$	$ (0.06)	$	$ (0.08)
Net loss per common share basic and diluted	$ (0.28)	$ (0.56)	$ (0.44)	$ (0.78)

The table below presents stock options, preferred stock and restricted stock units that are excluded from the diluted net loss per common share due to their anti-dilutive effect (shares in thousands):

	Three months ended June 30,	
	2008	2007
Antidilutive securities	5,260	5,746

Guarantee and Indemnification Arrangements

The Company recognizes the fair value for guarantee and indemnification arrangements issued or modified by the Company, if these arrangements are within the scope of FASB No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, or FIN 45. In addition, the Company monitors the conditions that are subject to the guarantees and indemnifications, as required under previously existing generally accepted accounting principles, in order to identify if a loss has occurred. If the Company determines it is probable that a loss has occurred, then any such estimable loss would be recognized under those guarantees and indemnifications. Some of the agreements of the Company contain provisions that provide for the indemnifications of the counter party for damages and costs resulting from claims that the Company s technology infringes the intellectual property rights of a third party or claims that the sale or use of the Company s products have caused personal injury or other damage or loss. The Company has not received any requests for indemnification under these provisions and has not been required to make material payments pursuant to these provisions and is not able to estimate the maximum potential impact of these indemnification provisions on its future operating results.

The Company generally provides for a one-year warranty on certain of its INTERCEPT blood-safety products covering defects in materials and workmanship. The Company accrues costs associated with warranty obligations when claims become known. There have been no warranty costs incurred through June 30, 2008. Accordingly, at June 30, 2008, the Company has not accounted for any potential warranty costs.

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Recent Accounting Pronouncements

In April 2008, the FASB issued FASB Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets, or FSP 142-3. FSP 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB Statement No. 142, Goodwill and Other Intangible Assets . This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption is prohibited. The Company is currently evaluating the impact, if any, that FSP 142-3 will have on its consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, or FAS 157, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. FAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. FAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB FSP 157-2 which delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The Company adopted FAS 157 for financial assets beginning January 1, 2008. The adoption of FAS 157 did not have a material impact on the Company s condensed consolidated financial position, results of operations, or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, or FAS 159. FAS 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. FAS 159 became effective for the Company beginning January 1, 2008, although the Company has not chosen to measure eligible assets and liabilities at fair value under the provisions of FAS 159. As such, the adoption of FAS 159 did not have an impact on the Company s condensed consolidated statements of position, results of operations, or cash flows.

In November 2007, the Emerging Issues Task Force ratified a consensus on EITF Issue No. 07-1, Accounting for Collaborative Arrangements, or EITF 07-1, which requires participants in a collaboration to make separate disclosures regarding the nature and purpose of an arrangement, their rights and obligations under the arrangement, the accounting policy for the arrangement and the income statement classification and amounts arising from the arrangement between participants for each period an income statement is presented. EITF 07-1 is effective for the Company beginning in the first quarter of fiscal year 2009. The Company is currently evaluating the impact of the provisions of EITF 07-1 on its financial position, results of operations and cash flows however, it does not anticipate the adoption of EITF 07-1 will have a material impact.

In June 2007, the EITF ratified a consensus on EITF Issue No. 07-3, Accounting for Non-Refundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities, or EITF 07-3, which concluded that non-refundable advance payments for goods or services for use in research and development activities should be deferred and capitalized. EITF 07-3 was adopted by the Company on January 1, 2008. The adoption of EITF 07-3 did not have a material impact on the Company s condensed consolidated financial position, results of operations, or cash flows.

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Note 2 Financial Instruments

The Company measures and records certain financial assets at fair value on a recurring basis, including its available-for-sale short-term investments. The Company s available-for-sale short-term investments consist of fixed income corporate bonds and US government agency securities. The Company classifies investments with remaining maturities of three months or less at the date of purchase, as cash equivalents. Cash equivalents consist of corporate commercial paper and money market funds, for which the carrying amount is a reasonable estimate of fair value.

At June 30, 2008, the fair values of certain of the Company s financial assets were determined using the following inputs (in thousands):

Fixed income available-for-sale-securities	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds[1]	$ 13,686	$ 13,686	$	$
Commercial paper[2]	990		990	
Corporate obligations[2]	11,588		11,588	
U.S. government agency securities[2]	3,986		3,986	
	$ 30,250	$ 13,686	$ 16,564	$

(1) Included in cash and cash equivalents on the Company s condensed consolidated balance sheet.

(2) Included in short-term investments on the Company s condensed consolidated balance sheet.

Note 3. Inventories

Inventories consisted of the following (in thousands):

	June 30, 2008	December 31, 2007
Work-in-process	$ 3,250	$ 715
Finished goods	8,741	6,347
	$ 11,991	$ 7,062

Note 4. Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	June 30, 2008	December 31, 2007
Accrued compensation and related	$ 1,527	$ 2,157
Accrued contract and other accrued expenses	8,368	4,522

	$ 9,895	$ 6,679

Note 5 Commitments and Contingencies

Operating Leases

The Company leases its office facilities and certain equipment under non-cancelable operating leases with initial terms in excess of one year that require the Company to pay operating costs, property taxes, insurance and maintenance. These facility leases generally contain renewal options and provisions adjusting the lease payments if those renewal options are exercised. The Company s facility leases qualify as operating leases under Statement of Financial Accounting Standards No. 13, Accounting for Leases and as such, are not included on its condensed consolidated balance sheets.

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Royalties

The Company is obligated to pay royalties on certain INTERCEPT product sales based on a percentage of net sales generated. The royalty rates vary by product, with a rate of 10% of net sales for the platelet system, 3% for the plasma system, 5% for the INTERCEPT Blood System for red blood cells, or the red blood cell system, and 6.5% for illuminators.

Purchase Commitments

The Company is party to agreements with certain providers of INTERCEPT blood safety system components which the Company purchases and provides to Fenwal Inc., or Fenwal, at no cost. Certain of these agreements require minimum purchase commitments from the Company.

Litigation

On February 16, 2007, the United States District Court for the Northern District of California granted final approval of the settlement of the class action securities lawsuit that had been pending since 2003 against certain of the Company s current and former directors, officers and the Company. On February 21, 2007, the Superior Court of Contra Costa County granted final approval of the settlement of the derivative lawsuit that had been pending since 2003, in which certain of the Company s current and former directors and officers were named as defendants and the Company was named as a nominal defendant. Both settlements have become effective.

Pursuant to the settlement agreements, the plaintiffs in each case released defendants from all known and unknown claims related to such litigation, without any admission of wrongdoing or liability by any party. Under these settlement agreements, the total cash settlements are funded entirely by insurance carriers under the Company s directors and officers liability insurance policy and will have no financial impact on the Company. Additionally, under the derivative suit settlement, the Company agreed to take or continue certain corporate governance measures. These measures involved, among others, the Company s making a good faith diligent effort to add one or two independent directors to its Board of Directors by September 1, 2007, (which has now been achieved by the addition of one new independent director in October 2007); and its committing through January 1, 2009, unless otherwise required by law, that two thirds of its Board of Directors will in good faith and with diligent effort consist of independent directors. Under terms of the settlements, the Company believes that these matters will not have a material effect on its results of operations or financial position.

Note 6 Credit Agreement

In June 2008, the Company entered into a senior secured revolving credit facility with Wells Fargo Bank, N.A., or the Facility, which allows the Company to borrow up to $10.0 million to be used for working capital and general operating needs. The initial term of the Facility is one year, if not extended. At the Company s option, interest on borrowings under the Facility accrues at either a fixed rate LIBOR plus two percent (2.0%) for borrowings in excess of $0.5 million for one, two, three, or six months, or a variable prime rate. The Facility is secured by all of the Company s assets, excluding intellectual property. The Facility also contains certain customary financial and non-financial conditions, as well as certain specific financial covenants, including covenants which require the Company to maintain certain minimum cash balances and incur maximum net operating losses in any given quarter for which the Facility is effective. At June 30, 2008, no amount was outstanding under the Facility.

Note 7 Preferred Stock

Baxter International, Inc., or Baxter, holds 3,327 shares of our Series B preferred stock, which represents 100% of the total outstanding shares of Series B preferred stock. The Series B preferred stock has no voting rights, except with respect to the authorization of any class or series of stock having preference or priority over the Series B preferred stock as to voting, liquidation or conversion or with respect to the determination of fair market value of non-publicly traded shares received by Baxter in the event of a liquidation, or except as required by Delaware law. At any time, Baxter may convert each share of Series B preferred stock into 100 shares of common stock. If all shares of Series B preferred stock were converted to common stock, 332,700 shares of common stock would be issued, which represents 1.0% of our outstanding common stock as of June 30, 2008. The Company has the right to redeem the Series B preferred stock prior to conversion for a payment of $9.5 million.

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Note 8 Stock-Based Compensation

2008 Equity Incentive Plan

The Company maintains a stock compensation plan as long-term incentives for employees, contractors, and members of its Board of Directors and Scientific Advisory Boards. At June 30, 2008, the Company only had one active stock plan, the 2008 Equity Incentive Plan, or the 2008 Plan. The 2008 Plan allows for the granting of stock options, restricted stock, restricted stock units, stock appreciation rights, other stock-related awards, and performance awards which may be settled in cash, stock, or other property. The 2008 Plan generally requires options to be granted at 100% of the fair market value of the common stock subject to the option on the date of grant. Performance-based stock options granted under the 2008 Plan are limited to either 500,000 shares or $1.0 million, in the case of performance based cash awards, per calendar year.

Employee Stock Purchase Plan

The Company also maintains an Employee Stock Purchase Plan, or the Purchase Plan. The Purchase Plan is intended to qualify as an employee stock purchase plan within the meaning of Section 423(b) of the Internal Revenue Code. Under the Purchase Plan, the Company s Board of Directors may authorize participation by eligible employees, including officers, in periodic offerings. The offering period for any offering will be no more than 27 months.

Restricted Stock Units

The Company has granted restricted stock units to the Chief Executive Officer, Senior Vice President, and Vice Presidents in accordance with the Bonus Plan for Senior Management of Cerus Corporation. Subject to each grantee s continued employment shares underlying the grants vest in three annual installments and are issuable at the end of the three-year vesting term.

Restricted stock unit grants made in connection with the Bonus Plan for Senior Management of Cerus Corporation are presented in the following table:

Six Months Ended June 30,	Units granted	Value per unit	Units vested at June 30, 2008
2008	43,086	$ 6.99	
2007	60,620	5.54	20,207
2006	37,098	10.32	24,732
Total	140,804		44,939

Stock-based Compensation

The Company currently uses the Black-Scholes option pricing model to determine the fair value of stock options and employee stock purchase plan shares. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company s stock price, as well as assumptions regarding a number of complex and subjective variables. The variables used to calculate the fair value of stock based payment awards using the Black-Scholes option pricing model, include the Company s expected stock price volatility, actual and projected employee stock option exercise behaviors, including forfeitures, the risk-free interest rate and expected dividends.

Expected Term

The Company estimates the expected term of options granted using a variety of factors. Where possible, the Company estimates the expected term of options granted by analyzing employee exercise and post-vesting termination behavior. To make this estimation, the Company analyzes the population of options granted by discreet, homogeneous groups. If the Company is unable to obtain sufficient information to estimate the expected term for a particular group, it estimates the expected term of the options granted by taking the average of the vesting term and the contractual term of the option, as illustrated in SAB 107. The expected term of employee stock purchase plan shares is the term of each purchase period.

Estimated Forfeiture Rate

The Company estimates the forfeiture rate of options at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. The Company estimates the historic pre-vesting forfeiture rates by groups that possess a degree of homogeneity regarding average time to vest and expected term. All stock-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods.

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Estimated Volatility

The Company estimates the volatility of our common stock by using both historical volatility of its common stock and implied volatility in market traded options in accordance with SAB 107. The Company s decision to use both historical volatility and implied volatility was based upon the limited availability of actively traded options on our common stock and its assessment that due to the limited availability of actively traded options, historical volatility should be given greater prominence in its decision as it believes it is more representative of future stock price. As such, the Company has calculated its estimated volatility by weighting both historical volatility and implied volatility. The Company has used significant judgment in making these estimates and it will continue to monitor the availability of actively traded options on its common stock.

Risk-Free Interest Rate

The Company bases the risk-free interest rate that it uses in the option valuation model on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options.

Expected Dividend

The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option valuation model.

The assumptions used to value option grants for the three and six months ended June 30, 2008, and 2007 were as follows:

	2008	2007
Expected term (in years)	4.16-6.73	4.01-5.48
Volatility	59.1%	60.9%
Risk free interest rate	4.03%	4.69%

The assumptions used to value employee stock purchase rights for the three and six months ended June 30, 2008, and 2007 were as follows:

	2008	2007
Expected term (in years)	0.50	0.50
Volatility	54.6%	58.68%
Risk free interest rate	4.4%	5.12%

Total stock-based compensation recognized on the Company s condensed consolidated statement of income for the three and six months ended June 30, 2008 and 2007, was as follows (in thousands):

	Option Grants and Stock Purchase Rights			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Research and development	$ 97	$ 187	$ 297	$ 440
Selling, general and administrative	309	324	732	594
	$ 406	$ 511	$ 1,029	$ 1,034

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Activity under the Company s stock option plans is set forth below (in thousands except per share amounts):

	Number of Options Outstanding	Weighted Average Exercise Price per Share ($)
Balances at December 31, 2007	5,173	12.13
Granted	218	6.08
Cancelled	(210)	17.47
Exercised	(394)	2.87
Balances at June 30, 2008	4,787	12.39

The total aggregate intrinsic value of options outstanding and exercisable at June 30, 2008 and 2007 was $1.7 million and $6.2 million, respectively. The weighted average fair value of options granted during the three and six months ended June 30, 2008 and 2007 were $2.88, $3.19, $3.52, and $3.37 per share, respectively. The weighted average remaining term of options exercisable at June 30, 2008 was 5.14 years. As of June 30, 2008, we had stock-based compensation expense of $4.0 million related to non-vested stock options not yet recognized, which is expected to be recognized over an estimated weighted average period of 2.61 years. The following table depicts the population of stock options at range of exercise prices outstanding at June 30, 2008 (shares in thousands):

	Options Outstanding			Options Vested	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$2.05 2.28	486	6.01	$ 2.25	480	$ 2.26
$2.39 2.89	295	6.11	$ 2.56	222	$ 2.59
$2.95 3.25	542	5.87	$ 3.23	538	$ 3.24
$3.48 5.55	633	7.30	$ 5.11	359	$ 4.86
$5.57 6.75	480	8.45	$ 6.15	207	$ 6.28
$6.76 8.73	750	8.14	$ 8.16	251	$ 7.72
$8.86 9.61	494	6.55	$ 8.94	344	$ 8.94
$10.15 26.25	479	3.10	$ 18.02	456	$ 18.40
$26.50 50.18	525	2.84	$ 44.49	525	$ 44.49
$53.57 75.25	103	1.42	$ 68.06	103	$ 68.06
	4,787	6.07	$ 12.39	3,485	$ 14.40

Note 9 Comprehensive Income (Loss)

Comprehensive income (loss) comprises net income (loss) and other comprehensive loss. Other comprehensive loss for all periods presented comprises unrealized holding losses on our available-for-sale securities, which are excluded from net loss and included as a component of stockholders equity. Comprehensive loss and its components were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007

Net loss:				
As reported	$ (9,093)	$ (17,915)	$ (14,385)	$ (24,723)
Other comprehensive loss:				
Net unrealized gain/(loss) on available-for-sale securities	(7)	(40)	65	(17)
Comprehensive loss	$ (9,100)	$ (17,955)	$ (14,320)	$ (24,740)

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Note 10 Development and License Agreements

Agreements with BioOne

In April 2004, the Company made an investment in the common stock of BioOne, a privately held Japanese corporation. BioOne was formed in 2004 to develop technologies to improve the safety of blood products in Asia, and is funded by equity investments from Japanese venture capital firms, other corporations and individual investors.

In June 2004, Baxter and the Company entered into an agreement with BioOne for commercialization of the INTERCEPT Blood System for platelets in parts of Asia. Under the terms of the agreement, BioOne is responsible, at its expense, for seeking regulatory approvals and will have exclusive rights to market and distribute the INTERCEPT Blood System for platelets in Japan, China, Taiwan, South Korea, Thailand, Vietnam and Singapore, following their receipt of regulatory approval in each of those countries. In addition to previously received and recognized milestone payments, the agreement also provides for contingent milestone payments and royalties on future product sales, which would be shared equally by Baxter and the Company.

Additionally, Baxter and the Company entered into agreements with BioOne for commercialization of the INTERCEPT Blood System for plasma in parts of Asia. Under the agreements, the Company received cash and equity securities of BioOne. The Company evaluates several criteria to determine the fair value of equity received. These criteria include, but are not limited to: third-party investor interest and participation in recent equity offerings at current pricing, business outlook of BioOne, and available financial information. Since BioOne is a privately-held Japanese company, it is only obligated to provide the Company with annual financial information at the end of its fiscal year which ends in May. Therefore, although the Company used the best available information at the time, there can be no absolute assurance that facts and circumstances will not change in the future.

In 2007, BioOne received equity financing from institutional and corporate investors at a price per share below the Company s carrying value at that time. The Company did not participate in this equity offering. However, as a consequence, the Com