CERUS CORP

FORM 10-Q
(Quarterly Report)

Filed 05/02/06 for the Period Ending 03/31/06

Address	2550 STANWELL DRIVE CONCORD, CA 94520
Telephone	9252886000
CIK	0001020214
Symbol	CERS
SIC Code	3841 - Surgical and Medical Instruments and Apparatus
Industry	Biotechnology & Drugs
Sector	Healthcare
Fiscal Year	12/31

CERUS CORP

FORM 10-Q
(Quarterly Report)

Filed 5/2/2006 For Period Ending 3/31/2006

Address	2411 STANWELL DR
	CONCORD, California 94520
Telephone	925-288-6000
CIK	0001020214
Industry	Biotechnology & Drugs
Sector	Healthcare
Fiscal Year	12/31

Table of Contents

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

FORM 10 - Q

(Mark One)

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

For the quarterly period ended March 31, 2006

or

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

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 Number)**

2411 Stanwell Dr.
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 ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Exchange Act Rule 12b-2)

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

As of April 24, 2006, there were 27,757,010 shares of the registrant's common stock outstanding.

Table of Contents

CERUS CORPORATION

QUARTERLY REPORT ON FORM 10-Q
THREE MONTHS ENDED MARCH 31, 2006

TABLE OF CONTENTS

Table of Contents

PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CERUS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
UNAUDITED
(in thousands)

	March 31, 2006 (Unaudited)	December 31, 2005 (see Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 52,787	$ 5,780
Short-term investments	30,042	40,025
Accounts receivable and other current assets	7,065	5,200
Inventory	2,068	—
Total current assets	91,962	51,005
Non-Current assets:		
Furniture and equipment, net of depreciation and amortization	1,547	1,235
Long-term investments	6,175	6,175
Other assets	269	245
Total assets	$ 99,953	$ 58,660
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 1,763	$ 2,092
Current loan and interest payable	—	4,826
Accrued liabilities	6,425	5,197
Deferred revenue	7,572	11,135
Deferred gain	5,753	—
Capital lease obligation	99	67
Total current liabilities	21,612	23,317
Capital lease obligation	120	68
Total liabilities	21,732	23,385
Stockholders' equity		
Preferred stock	9,496	9,496
Common stock	28	23
Additional paid-in capital	376,432	332,694
Accumulated other comprehensive (loss)	(162)	(295)
Accumulated deficit	(307,573)	(306,643)
Total stockholders' equity	$ 78,221	35,275
Total liabilities and stockholders' equity	$ 99,953	$ 58,660

See notes to condensed consolidated financial statements.

Table of Contents

CERUS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED
(in thousands, except per share data)

	Three Months Ended March 31,	
	2006	2005
Revenue:		
Milestone and development funding	$ 3,817	$ 2,933
Government grants and cooperative agreement	2,701	3,228
Product revenue	479	240
Total revenue	6,997	6,401
Operating expenses:		
Cost of product revenue	182	—
Research and development	6,682	5,049
Selling, general and administrative	3,116	2,421
Total operating expenses	9,980	7,470
Loss from operations	(2,983)	(1,069)
Gain on loan settlement	—	22,089
Interest income and other, net	2,053	365
Net income (loss)	$ (930)	$21,385
Net income (loss) per common share:		
Basic	$ (0.04)	$ 0.96
Diluted	$ (0.04)	$ 0.92
Weighted average common shares outstanding used for basic and diluted net income (loss) per share:		
Basic	23,040	22,257
Diluted	23,040	23,285

See notes to condensed consolidated financial statements.

Table of Contents

CERUS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED
(in thousands)

	Three Months Ended March 31,	
	2006	2005
Operating activities:		
Net income (loss)	$ (930)	$ 21,385
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	164	195
Gain on loan settlement	—	(22,089)
Stock-based compensation to employees	642	100
Gain on sale of equipment	—	(4)
Changes in operating assets and liabilities:		
Accounts receivable	(5,796)	30
Inventory	(2,068)	—
Other assets	3,907	—
Deferred gain	5,753	
Accounts payable and accrued expenses	702	(1,597)
Accrued interest	(326)	57
Deferred revenue	(3,563)	(2,748)
Net cash used in operating activities	(1,515)	(4,671)
Investing activities:		
Purchases of furniture, equipment and leasehold improvements	(179)	(197)
Purchases of short-term investments	—	(5,003)
Sales of short-term investments	—	6,000
Maturities of short-term investments	10,116	3,600
Net cash provided by investing activities	9,937	4,400
Financing activities:		
Net proceeds from issuance of common stock public offering	42,353	
Net proceeds from issuance of common stock ESPP, stock options and restricted stock units	747	114
Repayment of loan	(4,500)	(34,500)
Payments on capital lease obligations	(15)	—
Net cash provided by (used in) financing activities	38,585	(34,386)
Net increase (decrease) in cash and cash equivalents	47,007	(34,657)
Cash and cash equivalents, beginning of period	5,780	39,493
Cash and cash equivalents, end of period	$52,787	$ 4,836

See notes to condensed consolidated financial statements.

CERUS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

Note 1 – Basis of Presentation

Our accompanying unaudited condensed consolidated financial statements include those of Cerus Corporation and our subsidiary, Cerus Europe B.V., 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, considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2006, are not necessarily indicative of the results that may be expected for the year ending December 31, 2006, 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, 2005, included in our 2005 Annual Report on Form 10-K. The accompanying balance sheet as of December 31, 2005, has been derived from our audited financial statements as of that date.

Revenue Recognition

In December 2003, the Securities and Exchange Commission published Staff Accounting Bulletin No. 104, “Revenue Recognition” (“SAB 104”). SAB 104 rescinds Staff Accounting Bulletin No. 101, “Revenue Recognition in Financial Statements” and provides guidance on the recognition, presentation and disclosure of revenue in financial statements. The Company recognizes revenue in accordance with SAB 104 and Emerging Issues Task Force (“EITF”) 00-21, “Accounting for Revenue Arrangements with Multiple Deliverables,” as applicable.

Our main sources of revenues through March 31, 2006, have been our research and development activities and agreements. Historically, development funding has consisted of payments made (i) by Baxter Healthcare Corporation (“Baxter”), a subsidiary of Baxter International Inc. (“Baxter International”), to us as reimbursement for development spending in excess of the levels determined by Baxter and us and (ii) by MedImmune, Inc. (“MedImmune”) to us as reimbursement for certain fee-for-service development activities. Revenue related to the cost reimbursement provisions under development contracts is recognized as the costs on the project are incurred. Revenue related to at-risk milestones specified under development contracts is recognized as the milestones are achieved. Payments for achieved milestones are non-refundable and are not subject to future performance. We evaluate licenses and research and development agreements that contain multiple elements in accordance with EITF 00-21 and accordingly allocate revenue to each element of the agreement based on their relative fair values.

We receive milestone and upfront consideration from collaborative partners, including MedImmune and BioOne Corporation (“BioOne”). This milestone and upfront consideration is earned through our research and development activities surrounding the agreements with our collaborative partners. Upfront consideration is generally deferred and is being recognized ratably over the periods to which the payments relate.

We receive certain United States government grants that support our 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 costs 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.

Our use of estimates in recording accrued liabilities for research and development activities 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.

Effective February 1, 2006, we entered into an agreement with Baxter, which gave us the exclusive commercialization rights to the INTERCEPT Blood Safety System for platelets and plasma (the “platelet system” and the “plasma system”). As a result of the agreement, we now record product sales of the platelet system, rather than our negotiated share of gross profits from such sales under the prior agreement with Baxter. Also as a result of the February 2006 agreement, we record cost of revenues, which, for the period from February 1, 2006, to March 31, 2006, consisted solely of the value of platelet system inventory sold. Inventory consists of finished goods components of the platelet system and is recorded at the lower of cost or market value, determined on a first-in, first-out basis.

Stock based compensation

During the first quarter of 2006, we adopted the provisions of, and account for stock-based compensation in accordance with, the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards No. 123R ("FAS 123R"), "Share-Based Payment," which replaced Statement of Financial Accounting Standards No. 123 ("FAS 123"), "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees." 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. We elected the modified-prospective method, under which the underlying assumptions for options granted in periods prior to adoption are not restated for comparative purposes. The valuation provisions of FAS 123R apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period.

See Note 2 for further information regarding our stock-based compensation assumptions and expenses, including pro forma disclosures for prior periods as if we had recorded stock-based compensation expense.

Other Significant Accounting Policies.

For all other significant accounting policies, refer to the Company's Form 10-K for the year ended December 31, 2005.

Note 2 – Stock-Based Compensation

We maintain stock compensation plans as long-term incentives for employees, contractors, and members of our Board of Directors and Scientific Advisory Boards. Currently, our active stock option plans include the 1996 Equity Incentive Plan (the "1996 Plan"), the 1998 Non-Officer Stock Option Plan (the "1998 Plan") , and the 1999 Equity Incentive Plan (the "1999 Plan").

The 1996 Plan

The 1996 Plan provides for grants of Incentive Stock Options ("ISOs") to employees and Nonstatutory Stock Options ("NSOs"), restricted stock purchase awards, stock appreciation rights and stock bonuses to our employees, directors and consultants. The ISOs may be granted at a price per share not less than the fair market value at the date of grant. The NSOs may be granted at a price per share not less than 85% of the fair market value at the date of grant. The option term is ten years. Vesting, as determined by our Board of Directors, generally occurs ratably over four years. In the event option holders cease to be employed by us, except in the event of death or disability or as otherwise provided in the option grant, all unvested options are forfeited and all vested options must be exercised within a three-month period, otherwise the options are forfeited.

The 1998 Plan

Under the terms of the 1998 Plan, options may be granted to employees or consultants at an exercise price of at least 85% of the fair market value per share at the date of grant. The option term is ten years.

The 1999 Plan

The 1999 Plan provides for grants of ISOs to employees and NSOs, stock bonuses and restricted stock purchase awards to our employees, directors and consultants. The option term is ten years.

Employee Stock Purchase Plan

We also maintain an Employee Stock Purchase Plan (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, our Board of Directors may authorize participation by eligible employees, including officers, in periodic offerings following the adoption of the Purchase Plan. The offering period for any offering will be no more than 27 months.

Restricted Stock Units

In March 2004, we granted restricted stock units to certain then-current employees. Subject to each grantee's continued employment, shares underlying restricted stock unit grants vest in four semi-annual installments. We recorded compensation expense based on the fair value of the underlying common stock as of the grant date, recognized over the vesting period. In the quarter ended March 31, 2006, we granted restricted stock units to the Chief Executive Officer and Vice Presidents in accordance with the 2005 bonus plan. 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. As of March 31, 2006 all restricted stock units granted in 2004 were valued at $3.38 per share and were fully vested. We granted 37,098 restricted stock units during the three months ended March 31, 2006 valued at $10.32 per share, of which none were vested as of March 31, 2006.

Stock-Based Compensation

Beginning with our first quarter of 2006, we adopted FAS 123R. See Note 1 for a description of our adoption of FAS 123R. We currently use 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 our 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 our expected stock price volatility, actual and projected employee stock option exercise behaviors, including forfeitures, the risk-free interest rate and expected dividends.

Expected Term

We estimate the expected term of options granted using a variety of factors. Where possible, we estimate the expected term of options granted by analyzing employee exercise and post-vesting termination behavior. To make this estimation, we analyze the population of options granted by discreet, homogeneous groups. If we are unable to obtain sufficient information to estimate the expected term for a particular group, we estimate 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

We estimate the forfeiture rate of options at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. We estimate 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.

Estimated Volatility

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

Risk-Free Interest Rate

We base the risk-free interest rate that we use 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

We do not anticipate paying any cash dividends in the foreseeable future and therefore use an expected dividend yield of zero in the option valuation model.

Prior to the adoption of FAS 123R, we recognized the estimated compensation cost of restricted stock over the vesting term. The estimated compensation cost is based on the fair value of our common stock on the date of grant. We will continue to recognize the compensation cost, net of estimated forfeitures, over the vesting term.

The assumptions used to value option grants for the quarters ended March 31, 2006, and 2005 are as follows:

	2006	2005
Expected term (in years)	3.77-6.28	5.00
Volatility	64.9%	58.3%
Risk free interest rate	4.55%	4.20%

The assumptions used to value employee stock purchase rights for the quarters ended March 31, 2006, and 2005 are as follows:

	2006	2005
Expected term (in years)	0.50	0.50
Volatility	59.82%	58.3%
Risk free interest rate	4.58%	4.20%

Total stock-based compensation recognized on our consolidated statement of income for the quarter ended March 31, 2006, is as follows:

Income Statement Classifications	Option Grants and Stock Purchase Rights
Research and development	267
Selling, general and administrative	375
Total	$ 642

The following table sets forth the pro forma amounts of net income and net income per share, for the three months ended March 31, 2005, that would have resulted if we had accounted for our employee stock plans under the fair value recognition provisions of FAS 123:

	2005
Net income:	
As reported	$21,385
Add: Stock-based compensation expense for employees included in reported net income, net of tax	50
Less: Total stock-based compensation expense for employees determined under the fair value based method, net of tax	580
Pro forma net income	$20,855
Basic net income per share:	
As reported	$ 0.96
Pro forma	$ 0.94
Diluted net income per share:	
As reported	$ 0.92
Pro forma	$ 0.90

Activity under the 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, 2005	4,598	13.025
Granted	188	10.205
Cancelled	(41)	7.515
Exercised	(75)	3.278
Balances at March 31, 2006	4,670	13.116

(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
$1.950—2.050	153	8.60	$ 2.048	50	$ 2.049
$2.100—2.280	658	8.25	$ 2.274	157	$ 2.267
$2.360—2.721	560	8.02	$ 2.509	155	$ 2.592
$2.950—3.250	543	8.12	$ 3.234	261	$ 3.228
$3.430—4.740	501	8.31	$ 4.267	225	$ 4.209
$5.000—8.750	280	7.55	$ 7.230	178	$ 7.193
$8.860—8.860	580	9.51	$ 8.860	59	$ 8.860
$9.000—21.060	485	6.38	$ 14.560	304	$ 16.682
$21.061—47.500	484	4.72	$ 34.367	482	$ 34.382
$47.750—75.250	428	5.65	$ 54.471	427	$ 54.476
	4,670	7.53	$ 13.116	2,307	$ 21.401

Note 3 – Disclosures About Segments of an Enterprise

We have two reportable segments: blood safety programs and immunotherapies. The blood safety segment primarily comprises development and commercialization of the INTERCEPT Blood Systems. The immunotherapies segment primarily comprises research and development of vaccines using our *Listeria* and KBMA platforms. The accounting policies of the reportable segments are the same as those under which our financial statements are prepared. There are no transactions between reportable segments.

Our senior management do not view segment results below operating income (loss) and, therefore, interest income, expense and other non-operating expenses are not allocated to reportable segments. For the periods presented, revenue from Baxter, BioOne and the units of the United States Department of Defense (“Armed Forces”) are included in blood safety programs, and revenue from MedImmune and the Armed Forces are included in immunotherapies. Segment information for the three months ended March 31, 2006, and 2005, is presented below (in thousands):

	Three Months Ended March 31, 2006	
	Revenue	Operating Income (Loss)
Blood safety programs	$4,419	$ (601)
Immunotherapies	2,578	(2,382)
Totals	$6,997	$ (2,983)

	Three Months Ended March 31, 2005	
	Revenue	Operating Income (Loss)
Blood safety programs	$3,168	$ 551
Immunotherapies	3,233	(1,620)
Totals	$6,401	$ (1,069)

Note 4 – 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 income (loss) and its components are as follows (in thousands):

	Three Months Ended March 31,	
	2006	2005
Net income (loss):		
As reported	$(930)	$21,385
Other comprehensive income (loss):		
Net unrealized gain (loss) on available-for-sale securities	133	(546)
Comprehensive income (loss)	$(797)	$20,839

Note 5 – Basic and Diluted Net Income (Loss) Per Share

For all periods presented, basic net income (loss) per share is computed based on the weighted average number of shares of common stock outstanding during each period. Stock options and Series B preferred stock outstanding during the period ended March 31, 2006, were not included in the computation of diluted net loss per share because their effect was antidilutive. For the three months ended March 31, 2005, diluted net income per share includes the effect of 695,000 shares of common stock calculated on options outstanding using the treasury stock method and the Series B preferred stock, which is convertible into 332,700 shares of common stock.

Note 6 – Restructured Agreements with Baxter

Effective February 1, 2006, we entered into a restructuring of our agreements with Baxter related to the INTERCEPT Blood System. Under terms of the 2006 agreement, we gained worldwide rights to the INTERCEPT Blood System for platelets (the "platelet system") and the INTERCEPT Blood System for plasma (the "plasma system") previously held by Baxter, excluding certain Asian countries covered in agreements with BioOne. We will pay Baxter royalties on future product sales, replacing terms of the previous agreement, in which we received a defined share of gross profit from product sales. The royalty rates vary by product, with a rate of 10% of net sales for the platelet system, 3% for the plasma system and 5% for the INTERCEPT Blood System for red blood cells (the "red blood cell system"). Baxter has agreed to supply certain transition services, including regulatory, technical and administrative support, in 2006 at our expense and to conduct certain continued development efforts relating to the plasma system at Baxter's expense. We recorded net gains and deferred gains of approximately $6.5 million in the period ending March 31, 2006, resulting largely from the disbursement to us of funds that remained from a $13.1 million escrow account established in the February 2005 agreement with Baxter (as described below) to fund commercialization of the platelet and plasma systems in Europe. The majority of the disbursed funds must be spent on certain specified activities associated with the European commercialization of the platelet and plasma systems, and any such funds that remain unspent by the end of 2006 will be split evenly between Baxter and us. As part of the agreement, we purchased UVA illumination devices and may purchase other finished goods and work in process from Baxter's inventory for use with the platelet and plasma systems. We also repaid in February 2006 the $4.5 million promissory note plus accrued interest owed to Baxter Capital that was originally due in December 2006. During the three months ended March 31, 2006 we recognized $1.8 million associated with the 2006 agreement. At March 31, 2006 we had $5.8 million in deferred gains recorded on our condensed consolidated balance sheet.

Prior to February 2005, Baxter and we shared development expenses for the platelet and red blood cell systems under the parties' existing development and commercialization agreements. The agreements provided for us to be solely responsible for funding development expenses for the plasma system. Under the agreements, Baxter had been responsible for manufacturing and marketing the platelet system, which is approved for sale in some countries in Europe. The agreements provided for us to receive approximately 33.5% of revenue from sales of system disposables after each party is reimbursed for its cost of goods to the extent cost exceeds specific amounts. Recognition of product sales revenue was deferred from the fourth quarter of 2003 through December 31, 2004, as a result of revenue sharing payments being withheld by Baxter due to a dispute over the timing of repayment of a loan from Baxter Capital.

In February 2005, Baxter and we entered into agreements that reaffirmed the previous agreements in certain respects and modified them in other respects (the "2005 agreements"). Under the 2005 agreements, Baxter remained solely responsible for sales and marketing expenses for the products/countries as to which it maintained commercialization rights. For 2005 and 2006, Baxter agreed to fund $13.1 million of expenses for platelet and plasma system sales and marketing and for activities directed toward CE mark approval of the plasma system. Baxter also agreed to furnish specified levels of personnel to conduct sales and marketing of the platelet system and, upon approval, plasma system in Europe.

Our arrangement with Baxter to equally fund development work for the platelet system and the red blood cell system also was terminated by the 2005 agreements. Commencing January 1, 2005, each company agreed to bear its own expenses regarding ongoing discussions with the FDA to gain clarity on the remaining steps in the U.S. regulatory process for the platelet system. Effective February 1, 2006, we became primarily responsible for all regulatory expenses incurred in support of the INTERCEPT Blood System. Under the 2005 agreements, we remained responsible for funding 100% of development expenses for the plasma system, except that $2.2 million of Baxter's $13.1 million commitment (described above) was to be applied to activities directed toward obtaining CE mark approval of and launch preparation for the plasma system. Baxter agreed to cooperate with us to complete certain activities required for the CE mark application. Such activities were at our expense, except for the right to apply such $2.2 million.

Baxter has agreed to manufacture systems and components, on a cost-plus basis, through 2008. Since the agreements do not require Baxter to manufacture in an FDA-approved facility, we will need to undertake additional validation steps before use of such items in the United States. Baxter has agreed to supply only very limited types of components for the prototype red blood cell system.

Note 7 – Loan Payable to Baxter Capital Corporation

Concurrent with the February 2005 restructured agreements between Baxter and us, Baxter Capital and we entered into an agreement under which we immediately paid $34.5 million to Baxter Capital and entered into a promissory note for $4.5 million, payable with 8% interest originally due in December 2006. Baxter Capital agreed to accept these payments in full satisfaction of a pre-existing loan obligation of $50.0 million plus accrued interest, and the parties dismissed all related legal actions. As a result of the February 2005 loan settlement, we received a payment of $209,000 from Baxter representing withheld revenue share from product sales through December 31, 2004. This amount was recognized as product sales revenue during the three months ended March 31, 2005, in addition to revenue related to product sales during that period.

Concurrent with the February 2006 restructured agreements between Baxter and us, we fully repaid the $4.5 million promissory note plus accrued interest owed to Baxter Capital that was originally due in December 2006.

Note 8 – Transactions with BioOne

In April 2004, we 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. Because our initial investment represented greater than 20% of BioOne's voting equity securities, we accounted for this investment under the equity method for the three months ended June 30, 2004. During this period, we reported our share of BioOne's net losses for that period as a loss from equity affiliate and as a reduction of our investment.

In June 2004, Baxter and we 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 July 2004 and October 2004, Baxter and we each received up-front payments of $10.0 million from BioOne. Our portion of the up-front payments is being deferred and recognized ratably as development funding over the development period. The agreement also provides for contingent milestone payments and royalties on future product sales, which would be shared equally by Baxter and us.

In December 2004, Baxter and we signed a letter of intent with BioOne to enter into a definitive agreement for commercialization of the INTERCEPT Blood System for plasma in parts of Asia. Under the letter of intent, we received a payment of $3.0 million from BioOne, which was recorded as deferred revenue as of December 31, 2004. A definitive agreement with BioOne for the plasma system was signed by Baxter and us in June 2005. In December 2005 we received additional up-front payments of $2.0 million in cash and $5.0 million in BioOne's equity, both of which were recorded upon receipt as deferred revenue to be amortized over the remaining development period.

We made an additional $1.1 million investment in BioOne equity securities in July 2004. As a result of dilution from additional concurrent third party investments in BioOne, we then held less than 20% of the outstanding voting securities of BioOne and began accounting for our investment in BioOne under the cost method. As partial payment for rights to the plasma system in BioOne's territories, in December 2005 we received shares and a warrant, exercisable at a nominal price, for additional shares valued at $5.0 million based on a concurrent financing with new and existing investors completed by BioOne. We continue to hold less than a 20% interest in the voting securities of BioOne and thus continue to account for our investment under the cost method. As of March 31, 2006, our investment in BioOne was $6.2 million and was included in long-term investments on our balance sheets. We have determined that there was no impairment of this investment as of March 31, 2006.

Note 9 – Preferred Stock

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 holder of 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 the holder of Series B stock in the event of a liquidation, or except as required by Delaware law. At any time, the holder may convert each share of Series B preferred stock into 100 common shares. If all shares of Series B preferred stock were converted to common stock, 332,700 common shares would be issued, which represents 1.5% of our outstanding common shares as of March 31, 2006. We have the right to redeem the Series B preferred stock prior to conversion for a payment of $9.5 million.

Note 10 – Litigation

On December 8, 2003, a class action complaint was filed in the United States District Court for the Northern District of California against certain of our current and former directors, officers and us. The complaint alleged that the defendants violated the federal securities laws by making certain alleged false and misleading statements regarding the compound used in our red blood cell system. The plaintiff seeks unspecified damages on behalf of a purported class of purchasers of our securities during the period from October 25, 2000, through September 3, 2003. As is typical in this type of litigation, several other purported securities class action lawsuits containing substantially similar allegations have since been filed against the defendants. On May 24, 2004, the plaintiffs filed a consolidated complaint. The consolidated complaint abandons the allegations raised in the original complaints. Instead, the plaintiffs claim that the defendants issued false and misleading predictions regarding the initiation and completion of clinical trials, submission of regulatory filings, receipt of regulatory approval and other milestones in the development of the platelet, plasma and red blood cell systems. The consolidated complaint retains the same class period alleged in the original complaints. On June 17, 2004, the plaintiffs filed an amended consolidated complaint substantially similar to the previous consolidated complaint with additional allegations attributed to a confidential witness. On July 20, 2004, the defendants moved to dismiss the amended consolidated complaint. On January 20, 2005, the Court dismissed the complaint with leave to amend within 60 days. On March 21, 2005, the plaintiffs filed a second amended consolidated complaint, and on May 24, 2005, the plaintiffs filed a third amended consolidated complaint. The allegations of both the second and third amended consolidated complaints were similar to those contained in the previous amended consolidated complaint. The class period was shortened to the period from December 19, 2000, through January 30, 2003. On July 8, 2005, the defendants moved to dismiss this third amended consolidated complaint. We believe that this matter will not have a material effect on our results of operations or financial position; however, we cannot predict the outcome of this litigation.

On December 15, 2003, our directors and certain of our current and former officers were named as defendants in a derivative lawsuit. This action was filed in the Superior Court for the County of Contra Costa and names us as a nominal defendant. A virtually identical derivative complaint was filed on March 17, 2004, in the same Court. The plaintiffs in these actions are Cerus stockholders who seek to bring derivative claims on behalf of Cerus against the defendants. The lawsuit alleges breach of fiduciary duty and related claims. On June 1, 2004, the plaintiffs filed a consolidated complaint. The consolidated complaint repeats the allegations made in the original complaints, asserts the same claims as those complaints and seeks an unspecified amount of damages. On August 5, 2004, the Court approved a stipulation and proposed order staying the action for so long as the discovery stay in the securities action remains in place. The order further provides that plaintiffs may file an amended consolidated complaint within thirty days following the resolution of the pleadings in the securities action. We believe that this matter will not have a material effect on our results of operations or financial position; however, we cannot predict the outcome of this litigation.

Note 11 – Public Stock Offering

In March 2006, we completed a public offering of 5,175,000 shares of common stock, which included the underwriters' exercise of their over-allotment option, resulting in net cash proceeds of approximately $42.4 million.

Table of Contents

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

This discussion and analysis should be read in conjunction with our financial statements and accompanying notes included in this report and our 2005 audited financial statements and accompanying notes included in our 2005 Annual Report on Form 10-K. Operating results for the periods presented are not necessarily indicative of results for the year ending December 31, 2006, or any future period.

The following discussion includes forward-looking statements that involve risks and uncertainties. When used herein, the words "anticipate," "believe," "estimate," "expect" and similar expressions are intended to identify such forward-looking statements. There can be no assurance that these statements will prove to be correct. Certain important factors could cause actual results to differ materially from those discussed in such statements, including the risks and uncertainties of the timing and results of clinical trials and other development activities, actions by regulatory authorities at any stage of the development process, additional financing activities, manufacturing, reimbursement, market acceptance of any products, competitive conditions, our long term growth opportunity, legal proceedings, actions by Baxter and other factors discussed below described in Part II, Item 1A - Risk Factors and in our other documents filed with the Securities and Exchange Commission, or SEC. We undertake no obligation to update any of the forward-looking statements contained herein to reflect any future events or developments.

Cerus, *INTERCEPT*, *INTERCEPT Blood System* and *Helinx* are United States registered trademarks of Cerus Corporation.

Baxter is a trademark of Baxter International Inc.

Overview

Since our inception in 1991, we have devoted substantially all of our efforts and resources to the research, development, clinical testing and commercialization of blood safety systems and, more recently, immunotherapies for cancer and infectious disease. With the exception of a non-recurring gain recognized in the three months ended March 31, 2005, we have been generally unprofitable since inception and, as of March 31, 2006, had an accumulated deficit of approximately $307.6 million. Except for the platelet system, for which the European Union approved issuance of a CE mark, all of our product candidates are in the research and development stage. In late 2005, we filed a CE mark application for the plasma system and an investigational new drug application, or IND, with the United States Food and Drug Administration, or FDA, for CRS-100, a product candidate employing our attenuated *Listeria* technology platform, and we have elected to re-enter Phase I human clinical trials in the United States for the red blood cell system, which we plan to initiate in 2006. Our primary source of revenue is from U.S. government grants, contracts and cooperative agreements and from milestone and development funding from our collaborative partners. We have not received significant revenue to date from product sales. We must conduct significant research, development, preclinical and clinical evaluation, commercialization and regulatory compliance activities on our product candidates that, together with anticipated general and administrative expenses, are expected to result in substantial losses at least until after commercialization of additional products. Our ability to achieve a profitable level of operations in the future will depend on our ability to successfully commercialize and achieve market acceptance of our blood safety and immunotherapy product candidates. We may never achieve a profitable level of operations.

We currently derive a significant portion of our revenue from an ongoing development agreement with MedImmune and commercialization agreements with BioOne, as well as from grants and cooperative agreements from the Armed Forces and National Institutes of Health, or NIH. Under the agreements with MedImmune and BioOne, we are receiving development funding and may receive contingent milestone payments and royalties on future product sales.

As of March 31, 2006, we had received $1.5 million of upfront and milestone payments from MedImmune under the terms of the agreement, consisting of a $1.0 million up- front payment and a $0.5 million milestone payment, and had received a total of $15.0 million in cash payments and equity securities, from BioOne. We are also receiving development funding from MedImmune and recognized $0.1 million and $0.7 million of development funding during the three months ended March 31, 2006, and 2005, respectively. We also entered into cooperative agreements with the Armed Forces and received grants and contracts from NIH to conduct certain research and development activities, and we recognized $2.7 million and $3.2 million under funding awards received in connection with these agreements during the three months ending March 31, 2006, and 2005, respectively. Of the $2.7 million recognized under the Armed Forces and NIH agreements during the three months ending March 31, 2006, $0.4 million related to our blood safety programs and $2.3 million related to our immunotherapy programs, compared to $0.9 million and $2.3 million, respectively, in the three months ending March 31, 2005. In late 2005, we mutually agreed to discontinue development efforts whereby, along with the Pharmaceutical Division of Kirin Brewery Co. Ltd., or "Kirin", we were developing and marketing products for stem cell transplantation.

Effective February 1, 2006, we entered into a new agreement with Baxter related to the INTERCEPT Blood System. Under terms of the 2006 agreement, we gained worldwide rights to the INTERCEPT platelet and plasma systems previously held by Baxter, excluding certain Asian countries covered in agreements with BioOne. We previously acquired worldwide commercialization rights for the red blood cell system from Baxter. We will pay Baxter royalties on future product sales, with a rate of 10% of net sales for the platelet system, 3% for the plasma system and 5% for the red blood cell system. The payment of royalties replaces the terms of previous agreements in which we received a defined share of gross profit from product sales. Under the terms of the February 2006 agreement, Baxter has agreed to supply certain transition services to us in 2006 at our expense, including regulatory, technical and back-office support, and to conduct certain continued development efforts relating to the plasma system at its expense. Baxter has agreed to manufacture systems and components for the platelet and plasma systems on a cost-plus basis through December 31, 2008, and has agreed to supply only very limited types of components for the prototype of the red blood cell system.

We recorded net gains and deferred gains of approximately $6.5 million in the period ending March 31, 2006, resulting largely from the disbursement to us of funds that remained from the $13.1 million commitment described above. In February 2006, we also repaid the $4.5 million promissory note plus accrued interest owed to Baxter Capital that had originally been due in December 2006.

Under the terms of February 2006 agreement, we are responsible for the commercialization and development of the platelet and plasma systems, except in parts of Asia, and we expect that our spending over the next year in support of research, development and commercialization of the platelet and plasma systems will be in excess of the contribution from product sales to customers and from milestone payments and development funding for such programs from Baxter, BioOne, the Armed Forces and others. We also anticipate increasing our expenditures in support of clinical trials and device development of our red blood cell system, as well as the preclinical and early stage clinical development of our immunotherapy programs in both cancer and infectious disease.

Critical Accounting Policies and Management Estimates

The preparation of financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to collaborative arrangements, contract research and other contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form our basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates under different assumptions or conditions.

We believe the following critical accounting policies, which have been reviewed by our Audit Committee, affect our more significant judgments and estimates used in the preparation of our financial statements:

- Revenue and research and development expenses—Revenue related to the cost reimbursement provisions under development contracts is recognized as the costs on the projects are incurred. Revenue related to at-risk milestones specified under development contracts is recognized as the milestones are achieved. To date, we have not received license fees or milestone payments that are refundable. To the extent that they are subject to future performance criteria, we recognize as revenue ratably over the estimated license or development period. We have received up-front payments from collaboration agreements. These up-front payments are deferred and recognized over the period to which the payments relate. We receive certain United States government grants and contracts that support our research effort 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.
- We record accrued liabilities for certain contract research activities and development services, including those related to clinical trials, preclinical safety studies and external laboratory studies, and transition services and development activities. Some of those accrued liabilities are based on estimates because billings for these activities may not occur on a timely basis consistent with the performance of the services.
- Stock compensation expense – We issue stock-based awards to our employees, Board of Directors, Scientific Advisory Boards and certain contractors as strategic, long-term incentives. Beginning in the first quarter of 2006, we recorded stock-based compensation expense for these awards under FAS 123R. We have elected to use the modified-prospective method of adoption. We record compensation expense to our income statement based on the grant-date fair value of a stock award and the requisite service period, which is the vesting period. We determine the grant-date fair value of a stock award using the Black-Scholes option pricing model.

The Black-Scholes option pricing model calculates the grant-date fair value using certain variables. These variables are impacted by our stock price, award exercise behaviors, the risk free interest rate and our expected dividends and many of these variables require us to use significant judgment.

Expected Term

We estimate the expected term of options granted using a variety of factors. Where possible, we estimate the expected term of options granted by analyzing employee exercise and post-vesting termination behavior. To make this estimation, we

analyze the population of options granted by discreet homogeneous groups. If we are unable to obtain sufficient information to estimate the expected term in this manner, we estimate 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 the SAB 107. The expected term of employee stock purchase plan shares is the average of the remaining purchase periods under each offering period.

Estimated Forfeiture Rate

We estimate the forfeiture rate of options at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. We estimate 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.

Estimated Volatility

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

Risk-Free Interest Rate

We base the risk-free interest rate that we use 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

We do not anticipate paying any cash dividends in the foreseeable future and therefore use an expected dividend yield of zero in the option valuation model.

If factors change and we utilize different assumptions in determining the grant-date fair value of stock compensation expense in the future, or if we utilize a different option pricing model in the future, then those results may differ significantly from what we have recorded in the current period and could materially effect our operating results. There is significant risk that the Black-Scholes option pricing model and the judgment we have used in ascertaining the variables will yield results that differ materially from the actual values realized upon the exercise, expiration, termination or forfeitures of the awards in the future. Historical results were utilized in deriving our variables, which may not be indicative of the future.

Results of Operations

Three-Month Periods Ended March 31, 2006, and 2005

Revenue.

(in thousands, except percentage)	Three months ended March 31, 2006	2005	Change	
Milestone and development revenue	$3,817	$2,933	$ 884	30 %
Government grant and cooperative agreements	2,701	3,228	(527)	(16)%
Product revenue	479	240	239	100 %
Total revenue	$6,997	$6,401	$ 596	9 %

Development and milestone revenue from Baxter, BioOne and MedImmune increased 30% to $3.8 million for the three months ended March 31, 2006, from $2.9 million for the comparable period in 2005. The increase was due primarily to revenue recognized from up-front consideration received from BioOne in June 2005. During the three months ended March 31, 2006, we recognized $0.1 million in development funding for the plasma system from Baxter under the February 2005 agreements. In the three months ended March 31, 2005, under the February 2005 agreements, we recognized $0.3 million of funding from Baxter for the plasma program. Milestone and development funding from BioOne, MedImmune, and Baxter was 49%, 4% and 2%, respectively, of total revenue for the three months ended March 31, 2006. Milestone and development funding from Baxter, BioOne, MedImmune and Kirin was 4%, 27%, 14% and less than 1%, respectively, of total revenue for the three months ended March 31, 2005.

Revenue from government grants and cooperative agreements decreased 16% to $2.7 million for the three months ended March 31, 2006, from $3.2 million for the comparable period in 2005. The decrease was due primarily to reduced expenditures under the blood safety awards in 2006, partially offset by funding for vaccines programs.

During the three months ended March 31, 2006, we recognized $0.5 million of product sales revenue from sales of the INTERCEPT Blood System for platelets in Europe. Prior to the February 2006 agreement, product revenue represents our share of platelet system profits; subsequent to February 1, 2006, product revenue represents all of the platelet system revenues. These quarterly results may not be indicative of platelet system revenue in the future.

During the three months ended March 31, 2005, we recognized $0.2 million of product sales revenue from sales of the INTERCEPT Blood System for platelets in Europe. The significant majority of the revenue recognized during the first quarter of 2005 was the result of settling a dispute with Baxter, which, prior to the first quarter of 2005, resulted in deferred revenues. The INTERCEPT Blood System for platelets is currently undergoing validation studies and regulatory reimbursement review in many European countries. We do not expect sales of the system in Europe to be significant at least until the system is approved for sale and reimbursement rates established in the larger-market European countries.

Cost of Product Sales

Prior to the February 2006 agreement with Baxter, we did not record cost of product sales or gross margins from product sales. Subsequent to the February 1, 2006, effective date of the agreement, our cost of product sales consists solely of platelet system inventory sold. Inventory is accounted on a first-in, first-out basis. These results may not be indicative of future costs of product sales or gross margins.

Research and Development Expenses

(in thousands, except percentage)	Three months ended March 31, 2006	2005	Change	
Research and development expenses	$6,682	$5,049	$1,633	32%

Research and development expenses include salaries and related expenses for scientific personnel, payments to consultants, payments for licensed technologies, 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, pre-clinical safety studies, manufacturing development and other laboratory studies. Beginning on January 1, 2006, our research and development expenses also include non-cash stock-based compensation expense as a result of adopting FAS 123R.

Research and development expenses increased 32% to $6.7 million for the three months ended March 31, 2006, from $5.1 million for the comparable period in 2005. Of the $6.7 million of research and development expense recognized during the three months ended March 31, 2006, $0.3 million was due to non-cash stock-based compensation recognized as a result of adopting FAS 123R. Overall, the increase from March 31, 2005, was due primarily to increased development spending related to the red blood cell program and preparations for entering Phase I clinical trials with CRS-100.

Our total research and development costs included $3.5 million for our blood safety programs and $3.2 million for our immunotherapy programs for the three months ended March 31, 2006, and $1.7 million for our blood safety programs and $3.4 million for our immunotherapy programs for the comparable period in 2005.

Due to the inherent uncertainties and risks associated with developing biomedical products, including, but not limited to, intense and changing government regulation, uncertainty of future pre-clinical and clinical study results and uncertainty associated with manufacturing, it is not possible to reasonably estimate the costs to complete these research and development projects. We face numerous risks and uncertainties associated with the successful completion of our research and development projects; see “Risk Factors” in Part II, Item 1A below.

Selling, General and Administrative Expenses.

(in thousands, except percentage)	Three months ended March 31, 2006	2005	Change	
Selling, general and administrative	$3,116	$2,421	$695	29%

Selling, general and administrative expenses increased 29% to $3.1 million for the three months ended March 31, 2006, from $2.4 million for the comparable period in 2005. Selling, general and administrative expense includes headcount related costs, marketing costs, accounting, auditing and tax fees, legal fees, insurance, and internal control costs. Of the $3.1 million of selling, general and administrative expense recognized during the three months ended March 31, 2006, $0.4 million was due to non-cash stock-based compensation recognized as a result of adopting FAS 123R. Overall, the increase from the first quarter of 2005 was principally attributable to costs associated with establishing our operations in Europe. Our European office is not fully operational and, as such, we anticipate increased spending to achieve commercial sustainability of our INTERCEPT Blood Systems.

Gain on Loan Settlement

Concurrent with the February 2005 restructured agreements between Baxter and us, Baxter Capital and we entered into an agreement under which we immediately paid $34.5 million to Baxter Capital and entered into a promissory note for $4.5 million, payable with 8% interest in December 2006. Baxter Capital agreed to accept these payments in full satisfaction of the loan obligation, and the parties dismissed all related legal actions. As a result, we recorded a non-operating gain of $22.1 million in the period ended March 31, 2005, that reflected the difference between loan principal and accrued interest balances recorded through 2004, less amounts paid in February 2005 and remaining accrued liabilities as a result of the settlement, including a $0.8 million accrual included within other accrued expenses for other estimated expenses in connection with the restructured commercialization agreements with Baxter and long-term debt of $4.5 million, representing the note due to Baxter Capital in December 2006. In February 2006 we repaid the $4.5 million promissory note plus accrued interest.

Net Interest Income (Expense) and Other, Net

Net interest income (expense) and other, net was $2.1 million for the three months ended March 31, 2006, compared to $0.4 million during the comparable period in 2005. In both periods interest expense was accrued at 8% on the $4.5 million note payable to Baxter Capital. However, as a result of the February 2006 agreement with Baxter, we repaid the $4.5 million note plus accrued interest during the three months ended March 31, 2006, and as such, only recorded a portion of the full quarter’s interest expense on the note. Interest income was $0.3 million and $0.4 million for the three months ending March 31, 2006, and 2005, respectively. We expect to earn interest income at market rates in proportion to the marketable securities balances we maintain. We recently completed a public offering of our common stock, which resulted in increased cash balances at March 31, 2006. We intend to invest these proceeds in marketable securities pursuant to our investment policy until such time as we have an operating cash need.

Liquidity and Capital Resources

Our sources of capital to date have primarily consisted of public offerings and private placements of equity securities, the loan from Baxter Capital, payments received under our agreements with Baxter, BioOne, MedImmune and others, United States government grants and cooperative agreements and interest income. To date, we have not received a significant amount of capital from product sales revenue, and we will not derive significant capital from product sales unless and until one or more additional products receive regulatory approval and achieve market acceptance.

At March 31, 2006, we had cash, cash equivalents and short-term investments of $82.8 million. Net cash used in operating activities was $1.5 million for the three months ended March 31, 2006, compared to $4.7 million for the same period in 2005. The decrease in net cash used in operating activities was primarily due to changes in our operating assets and liabilities, notably increases in our accounts receivable and inventory balances offset by declines in our deferred revenue and other assets. Net cash provided by investing activities during the three months ended March 31, 2006 was $9.9 million, primarily due to sales and maturities of short-term investments. Net cash provided by financing activities during the three months ended March 31, 2006, was $38.6 million, compared to cash used in financing activities of $34.4 million for the same period in 2005. The increase in the first quarter of 2006 is due to the issuance of 5,175,000 shares of common stock in a public offering in March 2006, providing net proceeds of $42.4

million, offset by the repayment of a loan from Baxter Capital $4.5 million plus accrued interest. During the same period in 2005, we repaid $34.5 million on the note due to Baxter. Working capital increased to $70.4 million at March 31, 2006, from $27.7 million at December 31, 2005, primarily due to the receipt of proceeds from our stock offering and, to a lesser degree, from the gain from the February 2006 agreement with Baxter recognized during the period.

We believe that our available cash balances, together with anticipated cash flows from existing development and grant arrangements, will be sufficient to meet our capital requirements for at least two years. These near-term capital requirements are dependent on various factors, including the progress and costs of development and commercialization of the INTERCEPT Blood System and research and development of our immunotherapy programs, payments from our development and commercialization partners, including MedImmune and BioOne, and from the United States government, and costs related to creating, maintaining and defending our intellectual property. Our long-term capital requirements will be dependent on these factors and on the outcome of ongoing securities class action and derivative lawsuits against us, our ability to raise capital through public or private equity or debt financings or through additional collaborative arrangements or government grants, development progress in our immunotherapy programs, regulatory approval and successful commercialization of the INTERCEPT Blood System and other product candidates, competitive developments and regulatory factors. Future capital funding transactions may result in dilution to our investors, and may not be available on favorable terms or at all. In August 2001, we filed a shelf registration statement on Form S-3 to offer and sell up to $300.0 million of common stock and/or debt securities. In June 2003, we completed a public offering of 6,000,000 shares of common stock with gross proceeds, calculated for registration statement purposes, of $57.8 million under the shelf registration statement. In March 2006, we completed a public offering of 5,175,000 shares of common stock with gross proceeds, calculated for registration statement purposes, of $45.3 million under the shelf registration statement.

Commitments

Our commitments are as follows (in thousands):

	Payments Due by Period from March 31, 2006				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Contractual obligations:					
Minimum purchase requirements	200	50	150	—	—
License fees and sponsored research	520	480	40	—	
Operating leases	2,255	829	1,415	11	—
Total contractual cash obligations	$2,975	$1,359	$1,605	$ 11	$ —

Financial Instruments

We maintain an investment portfolio of various issuers, types and maturities. These securities are generally classified as available-for-sale and, consequently, are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of stockholders' equity, if material. Our investment policy is to manage our marketable securities portfolio to preserve principal and liquidity while maximizing the return on the investment portfolio to assist us in funding our research and development activities. Unrealized gains at March 31, 2006, totaled $0.1 million and unrealized losses at December 31, 2005 totaled $0.6 million. Our investments primarily consist of short-term money market mutual funds, United States government obligations and commercial paper. Of our cash and short-term investments balance of $82.8 million at March 31, 2006, approximately 84% have original maturity dates of less than 90 days, and approximately 16% have original maturities of 90 days to one year. We do not believe our exposure to interest rate risk to be material given the short-term nature of our investment portfolio. We do not believe our unrealized losses reflect more than a temporary decline in value of our marketable securities held.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is provided under the caption “Financial Instruments” under Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Our chief executive officer and chief financial officer are responsible for establishing and maintaining “disclosure controls and procedures” (as defined in the rules promulgated under the Securities Exchange Act of 1934, as amended), for our company. Based on their evaluation of disclosure controls and procedures as of March 31, 2006, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2006.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the chief executive officer and the chief financial officer have concluded that these controls and procedures are effective at the “reasonable assurance” level.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On December 8, 2003, a class action complaint was filed in the United States District Court for the Northern District of California against the Company and certain of its present and former directors and officers. On December 10, 2003, a second action was filed in the same Court against the same defendants. Both actions were brought on behalf of a purported class of persons who purchased the Company’s publicly traded securities between October 25, 2000, and September 3, 2003. The complaints alleged that the defendants violated the federal securities laws by making certain allegedly false and misleading statements regarding the compound used in the Company’s red blood cell system. As is typical in this type of litigation, several other purported securities class action lawsuits containing substantially similar allegations have since been filed against the defendants. On May 24, 2004, the plaintiffs filed a consolidated complaint. The consolidated complaint abandons the allegations raised in the original complaints. Instead, the plaintiffs claim that the defendants issued false and misleading predictions regarding the initiation and completion of clinical trials, submission of regulatory filings, receipt of regulatory approval and other milestones in the development of the INTERCEPT Blood Systems for platelets, plasma and red blood cells. The consolidated complaint retains the same class period alleged in the original complaints. On June 17, 2004, the plaintiffs filed an amended consolidated complaint substantially similar to the previous consolidated complaint with additional allegations attributed to a confidential witness. On July 20, 2004, the defendants moved to dismiss the amended consolidated complaint. On January 20, 2005, the Court dismissed the complaint with leave to amend within 60 days. On March 21, 2005, the plaintiffs filed a second amended consolidated complaint, and on May 24, 2005, the plaintiffs filed a third amended consolidated complaint. The allegations of both the second and third amended consolidated complaints were similar to those contained in the previous amended consolidated complaint. The class period was shortened to the period from December 19, 2000, through January 30, 2003. On July 8, 2005, the defendants moved to dismiss this third amended consolidated complaint. The Company believes that this matter will not have a material effect on its results of operations or financial position; however, it cannot predict the outcome of this litigation.

In addition, certain of the Company’s present and former directors and officers have been named as defendants in two virtually identical derivative lawsuits in the Superior Court for the County of Contra Costa, which name the Company as a nominal defendant. The plaintiffs in these actions are certain stockholders who seek to bring derivative claims on behalf of the Company against the defendants. The complaints allege breach of fiduciary duty and related claims. To date, there have been no further substantial developments in this lawsuit. The Company believes that this matter will not have a material effect on its results of operations or financial position; however, it cannot predict the outcome of this litigation.

ITEM 1A. RISK FACTORS

Risk Factors

Our business faces significant risks. If any of the events or circumstances described in the following risks actually occur, our business may suffer, the trading price of our common stock could decline and our financial condition or results of operations could be harmed. These risks should be read in conjunction with the other information set forth in this report. There may be additional risks faced by our business.

Our vaccine programs are in an early stage of development.

Our vaccine programs are in an early stage of development and there is a high risk of failure. We will be required to perform extensive preclinical and clinical testing before any product candidate can be submitted for regulatory approval prior to commercialization. Clinical testing is very expensive, takes many years, and the outcome is uncertain. Failure to demonstrate the safety or efficacy of a product candidate in preclinical studies or clinical trials would delay or prevent regulatory approval of that product candidate. Our potential vaccine products must meet rigorous testing standards in order to advance to clinical testing. No product candidates employing either our *Listeria* or our KBMA platform technologies have been tested in humans, and preclinical data in animal studies and from *in vitro* experiments may not be predictive of clinical safety and efficacy once product candidates are tested in humans. Our immunotherapy product candidates are unlikely to be used as single agents for the treatment of cancer or infectious diseases, but rather in combination with other drugs and treatment regimens. Testing our vaccines in combination with other drugs and treatment regimens in clinical trials will introduce additional clinical, timeline and regulatory risks and complexities, including added expense, delay in conducting clinical trials and uncertain regulatory requirements.

Naturally-occurring *Listeria* is a bacterium that is a human pathogen that can cause serious illness. Our immunotherapy product candidates for cancer indications use proprietary, modified strains of *Listeria* that are designed to have a substantially reduced ability to cause illness in humans. However, before our vaccine candidates can be accepted for clinical testing, we must successfully complete a number of preclinical safety studies. We may not be able to identify a dose range in which our product candidates are therapeutically effective and yet maintain adequate safety margins. We have filed an IND for our first vaccine candidate, CRS-100, and have obtained clearance from FDA to proceed with a Phase I, dose-escalation clinical trial. We have not yet received approval from the institutional review boards, or IRB's at participating clinical sites, which is a predicate to enrolling subjects in the Phase I trial. Clearance of a Phase I clinical trial using CRS-100 does not imply concurrence by FDA to our conducting later stage studies with CRS-100 and does not imply clearance for clinical trials of our other *Listeria* vaccine candidates expressing antigens, such as CRS-207. Our Phase I clinical trial for CRS-100 involves testing in a patient population with advanced disease. We may be unable to test CRS-100 and our other product candidates in subsequent trials in patient populations that we believe may be better suited clinically or commercially to our vaccines.

Because our vaccine candidates use novel platforms, the FDA or foreign regulators may require studies that we have not anticipated. In addition, we have contracted with third-party manufacturers to produce our vaccines for research, preclinical and clinical testing. We have manufactured CRS-100 for toxicology studies and Phase I clinical trials, but have not engaged in scale-up of the manufacturing process or the development of a commercial formulation. We also rely on third parties to conduct aspects of preclinical and clinical development on our behalf, including contract manufacturing and research services. These third parties may encounter delays, over which we have significantly less control than research and development activities performed in-house, or experience unexpected results. We may experience numerous unforeseen events during, or as a result of, the preclinical research and development process that could delay or prevent clinical testing, regulatory approval and commercialization of our potential products.

Our ability to successfully develop cancer and infectious disease products is dependent in part on being able to attract and retain partners and collaborators, as well as governmental funding sources.

The development and commercialization of product candidates employing our Listeria and KBMA platform technologies will be expensive, lengthy and uncertain. To date, we have relied not only upon internal scientific, development and financial resources, but also upon third parties. We have licensed our Listeria platform to MedImmune for use in developing a product candidate potentially applicable to cancers expressing EphA2, a proprietary antigen owned by MedImmune. We are collaborating with investigators at Johns Hopkins on other cancer and infectious disease programs. We also rely on advice and insights from our scientific advisory board, a group of independent clinicians, professors and investigators, regarding our research and development activities. These relationships provide us with external perspectives and independent validation that may be critical to our future success. Loss of these relationships or failure to attract others may result in additional expense, delays in development and regulatory approval and failure to commercialize products. We have received significant funding from U.S. government agencies for research and development in both cancer and infectious disease, as well as funding from MedImmune under our license agreement relating to development of MEDI-543 (EphA2). Due to budgetary constraints, funding from the Federal government, particularly funding from the Department of Defense and National Institutes of Health, is expected to be reduced from prior years and is subject to political and economic forces beyond our control. Federal funding in support of our programs to develop prophylactic vaccines against anthrax and tularemia is not expected to lead to substantial commercial opportunities beyond potential biodefense applications, and we cannot be certain that the research conducted into those two infectious diseases will readily translate into applications with greater commercial potential. Loss of funding from government sources and third parties would require us to reduce the scope of our research and development efforts in immunotherapeutics, narrowing the number of programs to those we could support through internal resources.

If our preclinical and clinical data are not considered sufficient by regulatory authorities to grant marketing approval, we will be unable to commercialize our products and generate revenue.

Except for the INTERCEPT Blood System for platelets, or platelet system, which has received CE mark approval and regulatory approval in certain countries in Europe, we have no products that have received regulatory approval for commercial sale and are being marketed. Our product candidates are in various stages of development, and we face the risks of failure inherent in developing medical devices and biotechnology products based on new technologies. Our product candidates must satisfy rigorous standards of safety and efficacy before the FDA and international regulatory authorities can approve them for commercial use. We must provide the FDA and international regulatory authorities with preclinical, clinical and manufacturing data that demonstrate our products are safe, effective and in compliance with government regulations before the products can be approved for commercial sale.

In 2002, the platelet system received CE mark approval in Europe. We will need to complete validation studies and obtain regulatory and reimbursement approvals in certain European countries before we can market our products in those countries. Further randomized clinical trials funded by third parties will be conducted in some European countries, such as the Netherlands. We expect to conduct many smaller scale experience trials with prospective customers in a number of European countries. We expect that decisions to adopt the platelet system may be deferred until completion of the additional trials and experience studies in Europe and until after reimbursement rates are set. In certain countries, including England and Germany, the system must be approved for purchase or use by a specific governmental or non-governmental entity or entities, such as the Paul Ehrlich Institute in Germany, after which reimbursement rates will need to be determined. In France, the platelet system has been approved for use by blood centers in treating platelets; however, we do not expect to sell the platelet system to commercial customers until we have successfully completed certain experience studies and national reimbursement levels have been set.

We completed our Phase III clinical trial of the platelet system in the United States in March 2001 and have submitted data from this trial, along with several other modules of our pre-market approval application, to the FDA. Based on discussions with the FDA, we performed an additional blinded analysis of the clinical trial data, under the direction of an independent expert physician panel, to determine if apparent differences between treatment groups in the category of pulmonary adverse events reported in the study were attributable to inconsistent event reporting. The reassessment of primary patient records by the expert physician panel showed no statistically significant differences between groups. This reassessment differed from the earlier analysis of adverse events that was based on clinical trial case report forms, which showed statistically significant differences in specific pulmonary events. We submitted a report of the analysis to the FDA for review. The report included conclusions from the expert physician panel. Based upon further discussions with the FDA based on that report, we continue to expect that the FDA will require an additional Phase III clinical trial to evaluate the hemostatic efficacy and safety of the platelet system, using the Company's final commercial product design, as compared to conventional platelets. We also understand that our reassessment of our previously completed Phase III clinical trial data will not be sufficient to address the apparent differences observed in that trial between the treatment groups in the category of pulmonary adverse events, and that data on such events would need to be gathered in the additional Phase III trial. The additional Phase III clinical trial would need to be completed and data from the trial submitted to the FDA before we could complete our regulatory submission. The FDA may not find the data from any additional clinical trials to be acceptable for approval. Before we begin an additional clinical trial, we will need to gain concurrence with the FDA on our trial design. We may not be able to reach concurrence on the size, scope or design of the study.

We have completed Phase IIIa, Phase IIIb and Phase IIIc clinical trials of the plasma system, in the United States, reports for which were filed with the FDA during 2005. A CE mark application for regulatory approval in Europe of the plasma system was submitted in December 2005. We have not submitted any applications for regulatory approval of the plasma system in the United States or any other regions other than Europe. In some countries, including those in Europe, we may be required to perform additional clinical studies using the commercial configuration of the system in order to obtain regulatory approval. Failure to pursue regulatory approval of the plasma system in the U.S. due to strategic priorities may have adverse consequences on market acceptance of the INTERCEPT Blood System globally.

As a result of the termination of Phase III clinical trials of our red blood cell system due to the detection of antibodies in two patients, we have been conducting additional research activities on our red blood cell system to determine if the system can be reconfigured to reduce the potential for antibody reactivity to treated red blood cells. Based upon an internal evaluation of the results to date from these additional research activities and after consulting with regulatory authorities, we have elected to initiate new Phase I trials in 2006 in the United States using a modified red blood cell system before potentially progressing to later-stage clinical trials. We will utilize a manual processing system in Phase I trials, which system is not in a commercially feasible form. A number of process and product design issues that could impact efficacy, regulatory approval and market acceptance will need to be resolved prior to the initiation of clinical trials and while those clinical trials are being conducted. These include reaching agreement with the FDA on a Phase I clinical trial design and developing a commercially feasible red blood cell system, including disposables, hardware and software for implementing the process in blood collection centers. A delay in completing such activities could result in a delay in initiating Phase I trials or the timely progression to later stage trials. If we are unsuccessful in advancing a modified red blood cell system through clinical trials, resolving process and product design issues or in obtaining subsequent regulatory approvals and acceptable reimbursement rates, we may never realize a return on our development expenses incurred to date in the red blood cell system program. Clinical trials in particular are expensive and have a high risk of failure. Any of our product candidates may fail in the testing phase or may not achieve results sufficient to attain market acceptance, which could prevent us from achieving profitability.

It may take us several years to complete our clinical testing, and failure can occur at any stage of testing. Enrollment criteria for certain of our clinical trials may be quite narrow. Consequently, we may be unable to recruit suitable patients into the trial on a timely basis, if at all. We cannot rely on interim results of trials to predict their final results, and acceptable results in early trials might not be repeated in later trials. Any trial may fail to produce results satisfactory to the FDA or foreign regulatory authorities. In addition, preclinical and clinical data can be interpreted in different ways, which could delay, limit or prevent regulatory approval. Negative or inconclusive results from a preclinical study or clinical trial or adverse medical events during a clinical trial could cause a preclinical study or clinical trial to be repeated, require other studies to be performed or cause a program to be terminated, even if other studies or trials relating to a program are successful.

The INTERCEPT Blood System may not achieve broad market acceptance.

Under our previous agreements, Baxter's sales and marketing organization had made only modest progress in commercializing the platelet system in European countries where it has been fully approved for sale. Despite CE mark approval, Baxter had encountered governmental and blood banking community resistance to commercial adoption, including concerns from some national transfusion services, governmental agencies and healthcare policy groups regarding efficacy, cost and risk-benefit profile. Some potential customers have indicated that further safety information or additional studies would be required before adopting our products. There is some volume loss in the yield of blood products as a result of our pathogen inactivation process. In addition, our platelet system process today is not fully compatible with the common practice of collecting two units of platelets from a single apheresis donor. If the volumetric reduction of blood product leads to increased costs, or our process requires changes in blood center or clinical regimens, customers may not adopt our platelet system product. Our products do not inactivate all known pathogens, and the inability of our systems to inactivate certain pathogens may limit their acceptance. In addition, our products may not demonstrate economic value sufficient to offset their price, imposing a financial burden on the healthcare system that may limit market acceptance.

For logistical and financial reasons, the transfusion industry has not always integrated new technologies into their processes, even those with the potential to improve the safety of the blood supply. Our products may require significant changes to our potential customers' space and staffing requirements and require significant capital investment. Even if our product candidates receive regulatory approval for commercial sale, blood centers, physicians, patients and healthcare payors may not believe that the benefits of using the INTERCEPT Blood System justify their additional cost. If customers experience operational or technical problems with the use of INTERCEPT Blood System products, market acceptance may be reduced. For example, if adverse events arise from incomplete inactivation of pathogens, improper processing or user error, or if testing of INTERCEPT Blood System-treated blood samples fails to reliably confirm pathogen inactivation, whether or not directly attributable to a shortcoming of the INTERCEPT Blood System, customers may refrain from purchasing the products.

Market acceptance of our products may also be affected by the availability of reimbursement from governments, managed care payors, such as insurance companies, or other third parties. We have no experience negotiating reimbursement of medical products. In many cases, due to the structure of the blood products industry, we will have little control over reimbursement discussions, which occur between the blood center and its payors. It is difficult to predict the reimbursement status of newly approved, novel medical device or biopharmaceutical products. In certain foreign markets, governments have issued regulations relating to the pricing and profitability of medical products and medical products companies. There also have been proposals in the United States, at both the federal and state government level, to implement such controls. The widespread adoption of managed care in the United States has also placed pressure on the pricing of medical products. These pressures can be expected to continue and may limit the prices we can obtain for our products.

We may be required to reduce the sales price for our products, which would reduce and may eliminate our gross profit on sales. At our present, low unit sales levels of the platelet system, our costs to manufacture and sell the platelet system are in excess of revenue. We may be unable to increase sales to a level sufficient to generate profit contribution. We believe that future product sales in Europe and other regions may be negatively affected because we do not have FDA approval for any of our products. If the INTERCEPT Blood System products fail to achieve market acceptance, we may never become profitable.

The market for the INTERCEPT Blood System is highly concentrated with few customers, including often-dominant regional or national blood collection entities. Even if our products receive regulatory approval and reimbursement is available, failure to properly market, price or sell our products to any of these large customers could significantly diminish potential product revenue in those geographies. The market for our pathogen inactivation systems in the United States is highly concentrated, dominated by a small number of blood collection organizations. In many countries in Western Europe and in Japan, various national blood transfusion services or Red Cross organizations collect, store and distribute virtually all of their respective nation's blood and blood components supply. In Europe, the largest markets for our products are in England, Germany and France. Decisions on product adoption are centralized in England. In Germany, decisions on product adoption are expected to be on a blood center-by-blood center basis, depending on both local and centralized regulatory approvals. We have not received in-country approvals to market our platelet system in England or Germany, nor has reimbursement been established in France. The National Blood Service in England has not yet indicated an interest in implementing our platelet system due to what we understand to be cost-benefit considerations. We may be required to seek explicit reimbursement in European countries for our plasma system, if and when approved by regulatory authorities, even though other competing pathogen inactivation products for plasma have been approved and are being reimbursed in Europe

presently. The Japanese Red Cross controls a significant majority of blood transfusions in Japan. If approvals are not obtained to market our products in these countries, or if the products are not adopted in these countries, our potential product revenue will be significantly decreased.

We will need to develop and test additional configurations of the INTERCEPT Blood System products to address the entire market.

Our efforts to develop the platelet system for use in the United States have focused almost entirely on apheresis platelets collected on Baxter's automated collection platform. Apheresis platelets are platelets that are collected from a single donor using an automated collection machine. Currently, we estimate that the majority of platelets used in the United States are collected by apheresis, though a significant minority is prepared from pooled random donor platelets derived from whole blood collections. Blood centers in the United States preparing pooled random donor platelets may be reluctant to switch to apheresis collection. The FDA may require us to make our systems compatible with random donor platelets. In order to develop a platelet pathogen inactivation system compatible with random donor platelets, we would need to perform additional product development and testing, including additional clinical trials. These development activities would increase our costs significantly, and may not be successful. In addition, FDA regulations limit to four hours the time from pooling to transfusion to minimize the proliferation of bacterial contamination in the pooled product. The FDA's time limit between pooling and transfusion currently precludes the use of our system with pooled random donor platelets. Although our system is designed to reduce the risk of bacterial contamination, we cannot predict whether the FDA would remove this process time constraint to allow our system to be used with pooled random donor platelets, and we have not yet made a request for the FDA to do so.

Our products, blood products treated with the INTERCEPT Blood System and we are subject to extensive regulation by domestic and foreign authorities.

Our products under development, and anticipated future products, are subject to extensive and rigorous regulation by local, state and federal regulatory authorities in the United States and by foreign regulatory bodies. These regulations are wide-ranging and govern, among other things:

- development;
- testing;
- manufacturing;
- labeling;
- storage;
- pre-market clearance or approval;
- sales and distribution;
- use standards and documentation;
- post-launch surveillance;
- advertising and promotion; and
- reimbursement.

The FDA and other agencies in the United States and in foreign countries impose substantial requirements upon the manufacturing and marketing of products such as those we are developing. The process of obtaining FDA and other required regulatory approvals is long, expensive and uncertain, and typically takes a number of years, depending on the type, complexity and novelty of the product. We may encounter significant delays or excessive costs in our efforts to secure necessary approvals or licenses, or we may not be successful at all.

Before the FDA determines whether to approve the INTERCEPT Blood System products, we expect our approval applications to be reviewed by the Blood Products Advisory Committee, or BPAC, an advisory committee convened by and reporting to the FDA. BPAC would then make a recommendation to the FDA for, or against, approval. Even if BPAC were to recommend approval of one or more of our products, the FDA would not necessarily approve those products. If BPAC were to recommend against approval of one or more of our products, it is likely that the FDA would not approve those products. Product candidates in our immunotherapy programs beyond CRS-100 likely will be subject to review by the Recombinant DNA Advisory Committee of the National Institutes of Health, which could delay initiation of clinical trials.

If our product candidates receive approval for commercial sale, their marketing and manufacturing will be subject to continuing FDA and other regulatory requirements, such as requirements to comply with Good Manufacturing Practice. The failure to comply with these requirements could result in delaying or precluding commercialization efforts in certain geographies, including the United States, and could result in enforcement action, which could harm our business. Gaining FDA approval for our platelet and plasma

products would require additional investment and time, because the current manufacturing sites we rely upon for producing the platelet and plasma system products for European distribution are not FDA-qualified facilities. Regulatory authorities may also require post-marketing testing, which can involve significant expense. Because of the limited duration and number of patients receiving blood components treated with the INTERCEPT Blood System products in clinical trials, it is possible that harmful effects of our products not observed in clinical and preclinical testing could be discovered in later stage clinical trials or after a marketing approval has been received. Later discovery of problems with a product, manufacturer or facility may result in additional restrictions on the product or manufacturer, including withdrawal of the product from the market. Governments or regulatory authorities may impose new regulations or other changes that could further delay or preclude regulatory approval of our potential products. We cannot predict the impact of adverse governmental regulation that might arise from future legislative or administrative action.

Distribution of our products outside the United States also is subject to extensive government regulation. These regulations vary by country, including the requirements for approvals or clearance to market, the time required for regulatory review and the sanctions imposed for violations. In addition to European Union-level approval, we must obtain regulatory and reimbursement approvals in some individual European countries, including France, Germany and England, to market our products. In addition, our customers in many countries must obtain regulatory approval to sell blood components treated with the INTERCEPT Blood System. The level of additional product testing varies by country, but could take a long time to complete. Failure to obtain necessary regulatory approvals or any other failure to comply with regulatory requirements could result in failure to achieve higher levels of revenue and earnings.

To support our requests for regulatory approval to market our product candidates, we have conducted and intend to conduct various types of studies including:

- toxicology studies to evaluate product safety;
- laboratory and animal studies to evaluate product effectiveness;
- human clinical trials to evaluate the safety, tolerability and effectiveness of treated blood components or immunotherapies; and
- manufacturing and stability studies.

We have conducted many toxicology studies to demonstrate the INTERCEPT Blood System product candidates' safety, and we plan to conduct toxicology studies for our vaccine candidates and red blood cell system throughout the product development process. At any time, the FDA and other regulatory authorities may require further toxicology or other studies to further demonstrate our products' safety, which could delay commercialization. In addition, the FDA or foreign regulatory authorities may alter guidance at any time as to what constitutes acceptable clinical trial endpoints or trial design, which may necessitate our having to redesign our product candidates or proposed clinical trials and cause us to incur substantial additional expense or time in attempting to gain regulatory approval. We believe the FDA and other regulatory authorities are likely to weigh the potential risks of using our pathogen inactivation products against the incremental benefits, which may be less compelling in light of improved safety in the blood supply. With respect to an additional Phase III trial of the platelet system in the U.S., we expect the FDA to require us to demonstrate a very low level of potential side effects. Trials of this type may be too large and expensive to be practical.

Preclinical testing and clinical trials involving our immunotherapy product candidates are long, expensive and uncertain processes. Neither our *Listeria* nor our KBMA platform technologies have been tested in humans. Consequently, preclinical results in animals and *in vitro* testing may not translate to demonstration of safety and efficacy in human clinical trials. A number of companies in the pharmaceutical industry, including biotechnology companies, have suffered significant setbacks in advancing stages of clinical trials, even after promising results in earlier preclinical and clinical trials. In addition, regulators and investigators may impose more stringent, time consuming and expensive clinical trial requirements than we might otherwise choose to pursue as a precondition to proceeding with clinical testing. It may take us or our collaborators several years to complete this testing, and failure can occur at any stage of the process.

We do not know whether we or our collaborators will begin planned clinical trials on schedule, if at all. Significant delays in clinical testing could materially impact our clinical trials. We also do not know whether planned clinical trials will need to be revamped or will be completed on schedule, if at all. Criteria for regulatory approval in cancer and infectious disease indications are evolving with competitive advances in the standard of care against which new product candidates are judged, as well as with changing market needs and reimbursement levels. Clinical trial design, including enrollment criteria, endpoints, and anticipated label claims are thus subject to change, even if original objectives are being met. In addition to the reasons stated above, clinical trials can be delayed for a variety of reasons, including delays in obtaining regulatory approval to commence a study, delays in reaching agreement on acceptable clinical study agreement terms with prospective clinical sites, delays in obtaining institutional review board approval to conduct a study at a prospective clinical site and delays in recruiting subjects to participate in a study. We do not know whether any clinical trials will result in marketable products. Typically, there is a high rate of failure for product candidates in preclinical and clinical trials and product candidates emerging from any successful trials would not reach the market for several years.

Delays can also materially impact our product development costs. If we experience delays in testing or approvals, our product development costs will increase. For example, we may need to repeat clinical trials to address regulatory or clinical questions. We may also need to make additional payments to third-party investigators and organizations to retain their services or we may need to

pay recruitment incentives. If the delays are significant, our financial results and the commercial prospects for our product candidates will be harmed, and our ability to become profitable will be delayed.

Regulatory agencies may limit the uses, or indications, for which any of our products are approved. For example, we believe that the INTERCEPT Blood System products will be able to claim the inactivation of particular pathogens only to the extent we have laboratory or animal data to support such claims. After regulatory approval for the initial indications, further clinical trials may be necessary to gain approval for the use of the product for additional indications.

In addition to the regulatory requirements applicable to us and to our products, there are regulatory requirements applicable to our prospective customers of INTERCEPT Blood System products, the blood centers that process and distribute blood and blood products. Blood centers and others will likely be required to obtain approved license supplements from the FDA or European regulatory authorities before using products processed with our pathogen inactivation systems. This requirement or regulators' delays in approving these supplements may deter some blood centers from using our products. Blood centers that do submit supplements may face disapproval or delays in approval that could provide further delay or deter them from using our products. The regulatory impact on potential customers could slow or limit the potential sales of our products.

We have no experience in marketing and sales, or in managing a commercial operation in Europe. We can no longer rely upon Baxter for sales, marketing, distribution and regulatory support of the INTERCEPT Blood System products and are forming a new subsidiary in Europe to assume such responsibilities from Baxter. We have limited experience in managing regulatory affairs, particularly with foreign authorities.

Upon reaching agreements with Baxter in February 2006, we became fully responsible for sales, marketing and distribution support of the INTERCEPT Blood System worldwide, except in those Asian territories covered by our agreements with BioOne for the platelet and plasma systems. As a consequence, we can no longer rely upon Baxter for sales, marketing and distribution support of the INTERCEPT Blood System. Further, the 2006 agreements require that Baxter will provide regulatory support for the INTERCEPT Blood System only through the end of 2006, after which time we can no longer rely on such support from Baxter. We have been particularly dependent on Baxter in Europe, where the platelet system has been approved for sale in certain countries. We will also be dependent on Baxter to transfer know-how relevant to the INTERCEPT Blood System. While the most recent agreements with Baxter call for a transition period in 2006 during which time Baxter will make available, generally at our expense, certain human and organizational resources on an as needed basis, we will need to develop internal competencies in sales, marketing, distribution and regulatory support or arrange for third parties to provide certain of these necessary services in the near future.

- *We have relied on Baxter for marketing, sales, distribution, customer service and back office functions for certain products and regions* . We currently have a small scientific affairs group that has helped support Baxter's marketing organization; however, we have not maintained our own independent sales and marketing organization. We may be unable to maintain existing customer relationships established by Baxter as we take on responsibility for sales, marketing and customer service. Beginning in early 2006, we began to recruit a small sales force dedicated to selling and marketing the platelet system and, if approved, the plasma system, in Europe. We may be unable to recruit suitable sales, marketing, regulatory, quality and back office personnel on a timely basis, if at all. As we reduce our operational reliance on Baxter, we will also need to develop distribution, customer service, and back office capabilities either internally or by contracting with third parties, which we may be unable to accomplish on a timely or affordable basis. We may be unable to operate a European operation effectively and efficiently, even after the subsidiary is fully staffed. Developing sales, marketing and operational capabilities ourselves will increase our costs and may delay commercialization of our pathogen inactivation systems.
- *We have relied on Baxter for regulatory support for certain products and regions.* Under our 2006 agreements, we will take on worldwide responsibility for regulatory activities regarding the INTERCEPT Blood System, except in territories covered by our agreement with BioOne for the platelet and plasma systems, provided that Baxter remains as the registrant or applicant under European registrations and applications for a transition period in 2006. We do not currently have the appropriate resources or in-depth experience to support regulatory activities relating to these products. We currently lack the resources and capabilities to respond appropriately to possible customer complaints or required regulatory reporting of adverse events arising from the use of the platelet system. We will need to increase our regulatory resources or contract with independent regulatory consultants, which we may be unable to do on a timely basis. Adding regulatory resources will result in increased costs and may potentially delay regulatory filings. Delays or inabilities to complete regulatory filings and obtain approvals will also delay or prevent us from earning milestone payments from BioOne, and from being able to recognize sales of our products and attaining profitability. Our agreements with Baxter require that Baxter transfer to us European regulatory registrations for the platelet system and European regulatory applications for the platelet and plasma systems once we have obtained necessary regulatory certification of our quality systems. An audit of our quality systems by European regulators is a prerequisite to such regulatory certification. Any delay in obtaining such certification would result in a delay in obtaining regulatory approval of the plasma system in Europe and may have other adverse consequences. There may be unforeseen adverse consequences in making this transition if regulatory agencies view the change negatively, which in turn may lead to potential delays in approvals.

We will continue to rely on Baxter for manufacturing and supplying components of our platelet and plasma systems for a limited period of time. We are also relying on Baxter to complete certain development activities relating to the plasma system. Over a longer period, we will need to identify, select and qualify third party sources of supply for the INTERCEPT Blood System, including the INTERCEPT red blood cell system.

- *We currently rely on Baxter for manufacturing and supplying components of our systems.* Under the terms of our agreements, Baxter is currently responsible for manufacturing and supplying certain components and devices of the INTERCEPT Blood System for development and commercial use through 2008. If Baxter fails to manufacture and supply an adequate supply of components or devices, we will be required to identify other component manufacturers. We may be unable to identify such manufacturers on a timely basis or enter into contracts with such manufacturers on reasonable terms, if at all. Any delay in the availability of devices or components from Baxter could delay further regulatory approvals, market introduction and subsequent sales of the systems. Moreover, the inclusion of components manufactured by others could require us to seek new approvals from regulatory authorities, which could result in delays in product delivery. We may not receive any such required regulatory approvals. Baxter manufactures our platelet and plasma systems and only limited components for our red blood cell system in facilities that are not FDA-approved. Our agreements do not require Baxter to validate these manufacturing facilities with the FDA. In order to be sold in the United States, our systems would be required to be manufactured in an FDA-approved facility. FDA validation of a manufacturing facility, whether owned by Baxter or by another party, will be costly and time-consuming. Because of low sales volumes and other reasons, Baxter's costs to manufacture commercial components for the platelet system are greater than we previously anticipated and may continue to rise. This will reduce our potential gross profit margin from European platelet system sales. Under the terms of our agreements, Baxter has committed to conduct certain development activities for the plasma system that are necessary for CE mark approval of the disposable set and CE mark self-declaration for the UVA illuminator. If such activities are not completed in a timely manner, our CE mark submission and self-declaration for the plasma system will be delayed.
- *Baxter may assign its agreements with us to third parties* . It has been reported that Baxter is seeking to sell the business unit that performs Baxter's obligations under our agreements. We do not control, and cannot predict, whether, when or to whom the business unit may be sold. The business unit may be sold to an existing industry participant, including a strategic partner or a competitor, or to a private equity firm. While the assignment provision of our February 2006 agreement provides that the agreement may be assigned only to an assignee that assumes all of Baxter's obligations under the agreement and has capability to perform the obligations, the acquirer of the business unit may fail to manufacture or supply an adequate supply of components or devices of the INTERCEPT Blood System, which would subject us to the risks described above. All references to "Baxter" in these Risk Factors should be read, as to future contingencies, to include any assignee of Baxter's obligations under our agreements.
- *We will be required to identify and enter into agreements with third parties to manufacture the INTERCEPT Blood System products and related blood component storage solutions.* Baxter's manufacturing responsibilities for certain components of the platelet and plasma systems in general extend through 2008, after which we will assume manufacturing responsibilities. Except for very limited manufacturing of disposable components, Baxter is no longer obligated to provide manufacturing services related to the red blood cell system. We will need to identify parties to provide those manufacturing services related to our red blood cell system at all. It may be difficult to enter into these types of agreements on reasonable terms. In particular, it will be time-consuming for other manufacturers to develop the capability to manufacture the INTERCEPT Blood System products and blood component storage solutions economically and to gain regulatory approval to do so for commercial use. We may be unable to identify and contract with manufacturers that can make our products cost-effectively, which would delay our efforts to commercialize our products.

The platelet system is not compatible with platelet collection platforms and platelet storage solutions manufactured by others.

The equipment and materials used to collect platelets vary from manufacturer to manufacturer. Our system for platelets is designed to work with platelets collected using a proprietary platelet storage solution, called Intersol, and, for platelets collected by apheresis, is fully compatible only with Baxter's apheresis platelet collection system. We have conducted our clinical studies for the platelet system using only Baxter's equipment and materials. Baxter has committed to us to make Intersol collection and pooling products and conversion kits available to customers. However, Baxter may not make such products or its apheresis collection system available for sale in certain countries and has elected to discontinue sales efforts for its apheresis collection system in Japan. Under an agreement with Haemonetics Corporation, or Haemonetics, Baxter has agreed to provide Haemonetics with Intersol, with the objective that platelets collected on certain Haemonetics apheresis collection equipment may be directly treated using our platelet system. Making the Haemonetics apheresis collection system readily compatible with our platelet system will require certain changes in the Haemonetics device, and there can be no assurance that Haemonetics will undertake this effort on a timely basis or be commercially successful. Gambro, Inc., or Gambro, another major supplier of automated platelet collection systems, is conducting clinical trials of its own system for pathogen inactivation of platelets. For competitive reasons, Gambro may have little or no incentive to make its apheresis collection system compatible with our platelet system. Attaining compatibility with collection platforms and platelet storage solutions manufactured by others would require adaptations to either our platelet system or to the collection platforms, which may be difficult to engineer, expensive to implement and test, require additional clinical trials, cause delays in regulatory approval and/or be commercially unattractive to pursue. These development activities will increase our costs significantly, and may not be successful. Market acceptance of the platelet system in the United States and other countries may be delayed until the system receives regulatory approval for use on such other equipment.

Because the INTERCEPT Blood System products have not been manufactured on more than a limited commercial scale, we face manufacturing uncertainties that could limit their commercialization. If our third-party manufacturers fail to produce our products or compounds satisfactorily and in sufficient quantities, we may incur delays, shortfalls and additional expenses, which may in turn result in permanent harm to our customer relations.

The INTERCEPT Blood System products, including many of the components, have only been manufactured on a commercial scale on a limited basis. We intend to use third-party manufacturers to produce commercial quantities of the chemical compounds to be used in our products. These compounds have not yet been produced in quantities sufficient to support commercialization for all regions in which we may market our products. We have an agreement with a manufacturer to produce commercial quantities of amotosalen, a proprietary compound used in our platelet and plasma systems. We currently do not have any third-party manufacturing agreements in place for commercial production of compounds used in our red blood cell system. Any additional commercial manufacturer will need to develop new methods and processes to manufacture these compounds on a commercial scale and demonstrate to us, the FDA and foreign regulatory authorities that its commercial scale manufacturing processes comply with government regulations. It may be difficult or impossible to economically manufacture our products on a commercial scale.

Baxter is responsible for manufacturing and assembling our platelet and plasma systems and Intersol products through 2008. Baxter relies on third parties to manufacture and assemble some of the system components, many of which are customized and have not been manufactured on a commercial scale. Baxter has produced some pathogen inactivation systems in modest commercial quantities, but may not be able to manufacture and assemble other systems or in larger quantities, or do so economically. If Baxter (or Cerus after 2008) or our third-party manufacturers fail to produce our products or Intersol products satisfactorily and in sufficient quantities, we may incur delays, shortfalls and additional expenses, which may in turn result in permanent harm to our customer relations. In the United States, studies related to the platelet system disposable and compound manufacturing need to be completed and included in FDA submissions before the FDA would consider the applications for approval.

Baxter purchases certain key components of the pathogen inactivation systems from a limited number of suppliers. Contracts for the long-term supply of certain components have not yet been signed. It would be expensive and time-consuming to establish additional or replacement suppliers for these components. If Baxter (or Cerus after 2008) is unable to find adequate suppliers for these components, we may be required to redesign the systems, which could lead to additional testing and clinical trials. If we were required to redesign the products, our development costs would increase, and our programs could be delayed significantly.

We will continue to rely on Baxter for transition services. Over a longer period, we will need to perform these services ourselves or identify one or more alternative third party providers.

Under the terms of our February 2006 agreement, Baxter is required to provide certain transition services relating to European activities, at our expense. These services included specified regulatory and clinical support activities, installation, maintenance and calibration services until December 31, 2006, clinical education and training until December 31, 2006, and manufacturing technical information and advice until December 31, 2008. If Baxter fails to provide these services, we may be unable to assume these functions ourselves or identify alternative third party providers on a timely basis or on reasonable terms, if at all. Any delay in these activities could delay further regulatory approvals, market introduction and subsequent sales of the systems.

We have used prototype components in our preclinical studies and clinical trials in the United States and have not completed the components' commercial design.

The system disposables and instruments we used in many of our preclinical studies and clinical trials in the United States historically and those we plan to use in our new Phase I red blood cell trial are prototypes of systems to be used in the final products. As a result, we expect regulatory authorities will require us to perform additional preclinical and clinical studies using the commercial versions of the systems to demonstrate the acceptability of the commercial configuration and the equivalence of the prototypes and the commercial products' design, which may increase our expenses and delay the commercialization of our products. If we fail to develop commercial versions of the INTERCEPT Blood System on schedule, our potential revenue would be delayed or diminished and our competitors may be able to bring products to market before we do.

In addition, the design and engineering effort required to complete the final commercial product is substantial and time-consuming. As with any complex development effort, we expect to encounter design, engineering and manufacturing issues. Such issues have previously arisen, sometimes unexpectedly, and solutions to these issues have not always been readily forthcoming. Additional unforeseen design, engineering and manufacturing issues may arise in the future, which could increase the development cost and delay commercialization of our products.

We rely on BioOne for commercialization of our platelet and plasma systems in many Asian countries.

Baxter and we have licensed rights to commercialization of the platelet and plasma systems in Japan, China, Taiwan, South Korea, Vietnam, Thailand, and Singapore to BioOne. BioOne is solely responsible for obtaining regulatory approvals, marketing and selling the platelet and plasma systems in those countries. Because we only have a minority investment interest in BioOne, we lack the ability to significantly influence BioOne, and are dependent on BioOne's performance to realize milestone and royalty revenue from commercialization of our platelet and plasma systems in those countries. In Japan, regulatory authorities may require a product to be approved by the FDA before it is considered for approval in Japan, which would delay or prevent BioOne from achieving significant

product sales. If BioOne is not successful, we will not receive milestone or royalty revenue derived from platelet or plasma system sales in those countries and the value of our equity in BioOne may be lost. There is no assurance that BioOne will be able to attract additional required capital to successfully commercialize those products licensed from Baxter and us.

If our competitors develop and market products that are more effective than our product candidates or fail in human clinical trials, our commercial opportunity will be reduced or eliminated.

We expect our products to encounter significant competition. The INTERCEPT Blood System products may compete with other approaches to blood safety currently in use, as well as with future products developed by others. Our success will depend in part on our ability to respond quickly to medical and technological changes brought about by the development and introduction of new products. Product development is risky and uncertain, and we cannot assure you that we will develop our products successfully. Competitors' products or technologies may make our products obsolete or non-competitive before we are able to generate any significant revenue. In addition, competitors or potential competitors may have substantially greater financial and other resources than we have. They may also have greater experience in preclinical testing, human clinical trials and other regulatory approval procedures.

Several companies are developing technologies that are, or in the future may be, the basis for products that will directly compete with or reduce the market for our pathogen inactivation systems. A number of companies are specifically focusing on alternative strategies for pathogen inactivation in platelets and plasma. In Europe, several companies, including Grifols, Octapharma AG and Maco Pharma International GmbH, are developing or have developed commercial pathogen inactivation systems to treat fresh frozen plasma. Navigant Biotechnologies, a wholly owned subsidiary of Gambro Group, is developing a pathogen inactivation system for blood products.

New methods of testing blood for specific pathogens have been approved by the FDA and in Europe, as have tests for bacteria in platelets. Continued delays in commercialization of the platelet system in France and Germany may impact our ability to compete with bacterial testing for platelets. Tests have recently been approved to detect West Nile Virus in blood products. Other groups are developing rapid, point-of-care bacterial tests, synthetic blood product substitutes and products to stimulate the growth of platelets. Development and commercialization of any of these technologies could impair the potential market for our products.

There are many companies pursuing programs for the treatment of cancer and treatment and prevention of infectious disease. Some are large pharmaceutical companies, such as Sanofi-Aventis, Bristol-Myers Squibb, Genentech and Gilead, which have greater experience and resources in product development, preclinical testing, human clinical trials, obtaining FDA and other regulatory approvals and in manufacturing and marketing new therapies. We are also competing with other biotechnology companies, such as Cell Genesys, Inc., Coley Pharmaceutical Group, Dendreon Corporation, and Therion Biologics Corporation that have cancer vaccine programs that are in more advanced stages of development than ours. In addition, other companies are pursuing early-stage research and development of *Listeria* -based immunotherapies. If any of these companies' products are shown to be more efficacious than ours, our *Listeria* -based products may fail to gain regulatory approval or commercial acceptance. If these companies' products fail in human clinical trials, we may be required to overcome more significant regulatory barriers prior to gaining approval, face more challenging impediments to market acceptance and may be unable to raise capital to fund development of our *Listeria* or KBMA programs.

We may be liable if our products harm people. We may be liable if an accident occurs in our controlled use of hazardous materials.

We are exposed to potential liability risks inherent in the testing and marketing of medical devices and pharmaceutical products. We may be liable if any of our products cause injury, illness or death. Although we will have completed rigorous preclinical and clinical safety testing prior to marketing our products, there may be harmful effects caused by our products that we are unable to identify in preclinical or clinical testing. In particular, unforeseen, rare reactions or adverse side effects related to long-term use of our products may not be observed until the products are in widespread commercial use. We maintain product liability insurance, but do not know whether the insurance will provide adequate coverage against potential liabilities. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our products.

Our research and development activities involve the controlled use of hazardous materials, including certain hazardous chemicals, radioactive materials and infectious pathogens, such as HIV and hepatitis viruses. Although we believe that our safety procedures for handling and disposing of hazardous materials comply with regulatory requirements, we cannot eliminate the risk of accidental contamination or injury. If an accident occurs, we could be held liable for any damages that result.

The significant majority of our operations are at a single site that is subject to lengthy business interruption in the event of a severe earthquake.

The significant majority of our facilities are in Concord, California and are within an active earthquake fault zone. Should a severe earthquake occur, we might be unable to occupy our facilities or conduct research and development activities in support of our products until such time as our facilities could be repaired and made operational. Our property and casualty and business interruption insurance in general does not cover losses caused by earthquakes. While we have taken certain measures to protect our scientific, technological and commercial assets, a lengthy or costly disruption due to an earthquake would have a material adverse effect on us.

We have only a limited operating history, and we expect to continue to generate losses.

We may never achieve a profitable level of operations. To date, we have engaged primarily in research and development. Our development and general and administrative expenses have resulted in substantial losses each year since our inception, including net losses of $58.3 million in 2003, $31.2 million in 2004. However, in 2005, we realized a $22.1 million nonrecurring gain associated with the restructuring of a loan payable. As a result of this gain, we recorded net income of $13.1 million in 2005. At March 31, 2006, we had an accumulated deficit of approximately $307.6 million. Except for the platelet system, which has received European CE mark approval, all of our products are in the research and development stage, and we have not received significant revenue from product sales. We have received substantially all of our revenue from our agreements with our development partners and from federal research grants and cooperative agreements. We will be required to conduct significant research, development, clinical testing and regulatory compliance activities for each of these products. We expect our losses to continue at least until more of our product candidates are commercialized and achieve significant market acceptance.

If we fail to obtain the capital necessary to fund our future operations, we will not be able to develop product candidates in our pipeline.

Our product development programs are capital-intensive. We may need to reduce or stop further investment in specific research and development or sales and marketing activities if we are unable to obtain additional capital or if any of our development programs are determined by us to be economically unfeasible. A product or program may be determined to be uneconomic if the commercial opportunity is insufficient to justify the investment required to develop and market the product or for other reasons. We expect that our spending in support of research, development and commercialization of the platelet and plasma systems will be in excess of contribution from product sales, milestone payments and development funding for such programs from third parties over the next year. We have recently elected to re-enter clinical trials for the red blood cell system with only partial funding from governmental sources. In addition, the 2006 restructuring agreement with Baxter requires that we take on more operational and financial responsibility for the commercialization of the platelet and plasma systems, particularly in Europe. As a result of these factors, further product development and commercialization of the INTERCEPT Blood System may take longer and be more expensive than we previously anticipated. We expect to continue to spend substantial funds for our operations for the foreseeable future. Our cash, liquidity and capital requirements will depend on many factors, including the development progress and costs of our programs, payments by MedImmune, BioOne and others, funding from agencies of the United States government, costs related to creating, maintaining and defending our intellectual property position, regulatory approval and successful commercialization of our product candidates, competitive developments and regulatory factors.

As of March 31, 2006, we had been awarded $36.9 million in funding under cooperative agreements with the Department of Defense, and also have received funding under grants from the National Institutes of Health. Further funding awarded under federal grants and cooperative agreements is subject to the authorization of funds and approval of our research plans by various organizations within the federal government, including the U.S. Congress. If we are unable to obtain federal grant and cooperative agreement funding for future activities at similar or greater levels, we may need to further reduce our operating expenses, which would delay progress in some of our development programs. In addition, we are required separately to administer and account for our work under government contracts and grants on an on-going basis as a condition to accepting government funding which places administrative, accounting and reporting burdens on us beyond those we have assumed as a public company. If we fail to comply with applicable governmental administrative, accounting and reporting regulations with respect to these grants and cooperative agreements, funds currently available to us may be reduced or lost. These conditions may also result in increased selling, general and administrative spending beyond what we have experienced.

We may not be able to protect our intellectual property or operate our business without infringing intellectual property rights of others.

Our commercial success will depend, in part, on obtaining and maintaining patent protection on our products and successfully defending our products against third-party challenges. Our technology will be protected from unauthorized use only to the extent that it is covered by valid and enforceable patents or effectively maintained as trade secrets. As a result, our success depends in part on our ability to:

- obtain patents;
- protect trade secrets;
- operate without infringing upon the proprietary rights of others; and
- prevent others from infringing on our proprietary rights.

We cannot be certain that our patents or patents that we license from others will be enforceable and afford protection against competitors. Our patents or patent applications, if issued, may be challenged, invalidated or circumvented. Our patent rights may not provide us with proprietary protection or competitive advantages against competitors with similar technologies. Others may independently develop technologies similar to ours or independently duplicate our technologies. For example, a United States patent issued to a third-party covers methods to remove psoralen compounds from blood products. We have reviewed the patent and believe our work predates the invention disclosed in that patent. We are continuing to review that patent and will make a determination as to whether any action is necessary. In addition, others hold patents, and have pending patent applications, concerning *Listeria* -based

immunotherapies. Those patents and new patents that may be issued upon the pending applications, if valid, would restrict us from bringing to market particular embodiments of *Listeria* -based immunotherapy products. While we believe that such restrictions do not preclude us from developing and commercializing our *Listeria* -based immunotherapy products, they may preclude us from pursuing certain product approaches that might otherwise be promising. Our patents expire at various dates between 2009 and 2018. Recent patent applications, principally related to our immunotherapy programs, will, if granted, result in patents with later expiration dates. Due to the extensive time required for development, testing and regulatory review of our potential products, our patents may expire or remain in existence for only a short period following commercialization. This would reduce or eliminate any advantage of the patents.

We cannot be certain that we were the first to make the inventions covered by each of our issued patents or pending patent applications or that we were the first to file patent applications for such inventions. We may need to license the right to use third-party patents and intellectual property to continue development and commercialization of our products. We may not be able to acquire such required licenses on acceptable terms, if at all. If we do not obtain such licenses, we may need to design around other parties' patents, or we may not be able to proceed with the development, manufacture or sale of our products.

We may face litigation to defend against claims of infringement, assert claims of infringement, enforce our patents, protect our trade secrets or know-how or determine the scope and validity of others' proprietary rights. Patent litigation is costly. In addition, we may require interference proceedings before the United States Patent and Trademark Office to determine the priority of inventions relating to our patent applications. Litigation or interference proceedings could be expensive and time consuming, and we could be unsuccessful in our efforts to enforce our intellectual property rights.

We may rely, in certain circumstances, on trade secrets to protect our technology. However, trade secrets are difficult to protect. We protect our proprietary technology and processes, in part, by confidentiality agreements with employees and certain contractors. These agreements may be breached and we may not have adequate remedies for any breach or our trade secrets may otherwise become known or be independently discovered by competitors. To the extent that our employees, consultants or contractors use intellectual property owned by others, disputes also may arise as to the rights in related or resulting know-how and inventions.

The market price of our stock may be highly volatile.

The market prices for our securities and those of other emerging medical device and biotechnology companies have been, and may continue to be, volatile. For example, during the period from January 1, 2003 to March 31, 2006, the sale price of our common stock as quoted on the Nasdaq National Market fluctuated within a range from a low of $1.60 to a high of $21.75. Announcements may have a significant impact on the market price of our common stock. Such announcements may include:

- biological or medical discoveries;
- technological innovations or new commercial services by us or our competitors;
- developments concerning proprietary rights, including patents and litigation matters;
- regulatory developments in both the United States and foreign countries;
- status of development partnerships;
- dilution from future issuances of common stock;
- public concern as to the safety of new technologies;
- general market conditions;
- comments made by analysts, including changes in analysts' estimates of our financial performance; and
- quarterly fluctuations in our revenue and financial results.

The stock market has from time to time experienced extreme price and volume fluctuations, which have particularly affected the market prices for emerging biotechnology and medical device companies, and which have often been unrelated to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of our common stock.

If there is an adverse outcome in the securities class action litigation that has been filed against us, our business may be harmed.

We and certain of our current and former officers and directors are named as defendants in a purported securities class action lawsuit filed in the United States District Court for the Northern District of California. The lawsuit is brought on behalf of a purported class of purchasers of our securities, and seeks unspecified damages. In addition, our directors and certain of our current and former officers have been named as defendants in a derivative lawsuit in the Superior Court for the County of Contra Costa, California, which names Cerus as a nominal defendant. The plaintiff in this action is a Cerus stockholder who seeks to bring derivative claims on behalf of Cerus against the defendants. The lawsuit alleges breaches of fiduciary duty and related claims.

As with any litigation proceeding, we cannot predict with certainty the eventual outcome of pending litigation. Furthermore, we may have to incur substantial expenses in connection with these lawsuits. In the event of an adverse outcome, our business could be harmed.

We may fail to comply fully with elements of the Sarbanes-Oxley Act of 2002. Our failure to maintain effective internal controls in accordance with Section 404 of this Act could have a material adverse effect on our stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires annual management assessments of the effectiveness of our internal control over financial reporting and a report by our independent registered public accountants attesting to and reporting on these assessments. If we fail to maintain the adequacy of our internal control over financial reporting, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude in future periods that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. If we cannot favorably assess, or our independent registered public accountants are unable to provide an unqualified attestation report on our assessment of, the effectiveness of our internal control over financial reporting, investor confidence in the reliability of our financial reports may be adversely affected, which could have a material adverse effect on our stock price.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

Table of Contents

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits

3.1.1(1)	Restated Certificate of Incorporation of Cerus Corporation, as amended to date.
3.2(2)	Bylaws of Cerus.
4.2(2)	Specimen Stock Certificate.
10.53	Form of Senior Management Bonus Plan for 2006.
10.54	Commercialization Transition Agreement, dated as of February 12, 2006, by and among Cerus, Baxter Healthcare S.A. and Baxter Healthcare Corporation. +
31.1	Certification of the Chief Executive Officer of Cerus pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of Cerus pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Confidential treatment requested for certain portions of this exhibit.

* This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Cerus Corporation under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

(1) Incorporated by reference to Cerus' Current Report on Form 8-K, dated November 3, 1999.

(2) Incorporated by reference to Cerus' Registration Statement on Form S-1 (File No. 333-11341) and amendments thereto.

Table of Contents

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, thereunto duly authorized.

CERUS CORPORATION

Date: May 2, 2006

/s/ William J. Dawson
William J. Dawson
Chief Financial Officer
(Principal Financial and Accounting Officer)

Table of Contents

Exhibit Index

3.1.1(1)	Restated Certificate of Incorporation of Cerus Corporation, as amended to date.
3.2(2)	Bylaws of Cerus.
4.2(2)	Specimen Stock Certificate.
10.53	Form of Senior Management Bonus Plan for 2006.
10.54	Commercialization Transition Agreement, dated as of February 12, 2006, by and among Cerus, Baxter Healthcare S.A. and Baxter Healthcare Corporation. +
31.1	Certification of the Chief Executive Officer of Cerus pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of Cerus pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Confidential treatment requested for certain portions of this exhibit.

* This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Cerus Corporation under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

(1) Incorporated by reference to Cerus' Current Report on Form 8-K, dated November 3, 1999.

(2) Incorporated by reference to Cerus' Registration Statement on Form S-1 (File No. 333-11341) and amendments thereto.

Exhibit 10.53

BONUS PLAN FOR SENIOR MANAGEMENT OF CERUS CORPORATION

This document sets forth the complete terms and conditions of the Bonus Plan for Senior Management of Cerus Corporation ("Cerus" or the "Company") (the "Senior Management Bonus Plan"). This Plan goes into effect on January 1, 2006, and will remain in effect until modified or terminated by the Company. The Plan Year for this Senior Management Bonus Plan runs from January 1 each year to December 31 each year.

1. Purposes of the Senior Management Bonus Plan

- Focus the organization on the goals which are most critical to the Company's success;
- Attract and retain a high caliber of employee;
- Promote a pay-for-results philosophy;
- Provide competitive compensation opportunities;
- Allow management judgment and flexibility; and
- Reinforce the overall compensation strategy.

2. Coverage

This Senior Management Bonus Plan covers the following bonus programs for senior management at Cerus: Signing Bonuses, Retention Bonuses and Performance Bonuses.

3. Eligibility

- Employees must qualify as "Senior Management" of the Company to be eligible for bonuses under the Senior Management Bonus Plan. The Company retains the sole discretion to determine which employees qualify as Senior Management and will provide written notice to all eligible employees of their status as a member of Senior Management.
- The only employees who are eligible for Signing Bonuses or Retention Bonuses are those employees who are expressly notified of such eligibility in a writing signed by a Company officer.
- Senior Management is not eligible for Recruiting Bonuses.
- All employees who have been designated as Senior Management are eligible for Performance Bonuses. Senior Management who work part-time are eligible to receive pro-rata Performance Bonuses based on the number of hours they are regularly scheduled to work. New Senior Management employees who are hired after the Plan Year begins are eligible to participate on a pro-rata basis after completing three months of employment (unless otherwise approved by the CEO). Eligible Senior Management participants who are on a leave of absence for any portion

of the Plan Year are also eligible to participate on a pro-rata basis, provided they work at least thirty days during the Plan Year.

- Employees are only eligible for bonuses under this Senior Management Bonus Plan if they sign and date this document and return it to the Company.

4. Amount and Calculation of Bonuses

- The amount of any Signing Bonus or Retention Bonus that an eligible employee may receive will be as set forth in the written document signed by a Cerus officer notifying the employee of their eligibility for such a bonus. Any terms and conditions set forth in that document will also apply.
- Performance Bonuses:
    - At the beginning of each Plan Year, the Company shall set corporate milestones for the Plan Year. Corporate milestones are generally submitted to the Compensation Committee in writing by the CEO for approval by the Compensation Committee before the end of the first quarter of each year. Corporate milestones generally include measurable results to be accomplished within the year.
    - At the end of each Plan Year, the Company creates a bonus pool as follows:
        - Each Senior Management employee's current bonus-year base pay is multiplied by the applicable bonus target percentage for that employee. (Target bonus percentages are assigned at the beginning of each Plan Year in writing.)
        - This product is then multiplied by the percentage of the corporate milestones that the Company has achieved.
        - The Compensation Committee will determine, in its sole discretion, whether and what percentage of the corporate milestones are met. The Company must achieve at least 50% of the approved corporate milestones for any bonus payout to occur unless otherwise approved by the Compensation Committee. If a corporate milestone is not met during or before the end of the quarter in which it was due to be completed, then the potential bonus pool amount attributable to that milestone will be discounted as follows (unless otherwise approved by the Compensation Committee): only 50% of the potential bonus pool amount for a milestone will be provided if the milestone is achieved one quarter late, and no bonus pool amount will be provided if the milestone is achieved more than one quarter late.
    - Once the pool is created, the CEO shall determine distribution of the pool among members of Senior Management based upon individual performance and contribution, which distribution shall be submitted to the Compensation Committee for approval. Whether Senior Management employees receive a Performance Bonus, and the amount of any such Performance Bonus, is entirely within the discretion of the CEO and the Compensation Committee, and is also dependent on the Company's ability to pay.

- The Company determines the actual amount of Performance Bonuses based on the above criteria every January for the preceding year. Once the amount of the Performance Bonus (if any) is determined, 70% of the Performance Bonus will be awarded in cash and 30% will be awarded in the form of restricted stock units. The number of restricted stock units that are awarded will depend on the share price on the date the units are granted, which will generally be the date on which bonus amounts are determined, unless the Board decides otherwise.
- Any restricted stock units granted as a Performance Bonus will be subject to a vesting schedule whereby 1/3 vest on the first year anniversary of grant, 1/3 vest on the second year anniversary of grant, and 1/3 vest on the third year anniversary of grant, subject to the employee's continued service with the Company. Vested units cannot be sold, transferred or otherwise disposed of until the entire grant is vested (or if the employee leaves prior to full vesting, until such time as the entire grant would have vested if the employee had remained employed). The terms and conditions of any such grants will governed entirely by the applicable plan documents and restricted stock unit agreement.

5. Payment of Bonuses

- No bonus is earned until it is required to be paid under this Senior Management Bonus Plan. Therefore, in the event an employee's employment is terminated (either by the Company or by the employee, whether voluntarily or involuntarily) before a bonus is paid, then the employee will not have earned that bonus, and will not be entitled to any portion of that bonus.
- Signing Bonuses are paid on the first payday following the employee's completion of the required period of active, full-time employment stated in the employee's offer letter. If the employee does not complete the required period of employment, or is not in good standing with the Company as of the date the Signing Bonus otherwise would be payable, then the employee will not have earned the Signing Bonus and no Signing Bonus will be paid.
- Retention Bonuses are paid on the first payday following the retention date specified in the employee's Retention Bonus Memorandum provided that the employee remains an active full-time employee of the Company from the date of such memorandum through the Retention Date.
- The cash portion of any Performance Bonus is paid in the January following the end of the Plan Year. Similarly, the stock portion of any Performance Bonus is awarded in the January following the end of the Plan Year. An eligible employee must be actively employed by the Company in good standing on the day the bonus is paid, or the stock is granted, in order to receive the Performance Bonus, unless otherwise approved in advance by the Compensation Committee.

6. Bonuses Disputes

- A Bonus Review Board will be established to review and decide any disputes arising under this Senior Management Bonus Plan. It shall consist of the Company's Chief Executive Officer and Vice President of Administration. Any employee with an issue related to this Senior Management Bonus Plan shall provide a written request for review to Human Resources who, in turn, shall convene the Board to resolve the issue. All decisions of the Bonus Review Board are final and binding.

7. Legal and Ethical Standards

- No employee shall attempt to earn a bonus by engaging in any conduct which violates any anti-trust laws, other laws, or the Company's ethical standards, policies or practices.
- No employee shall pay, offer to pay, assign or give any part of his or her bonus, compensation, or anything else of value to any agent, customer, supplier or representative of any customer or supplier, or to any other person, as an inducement or reward for direct or indirect assistance in earning a bonus.
- Any infraction of this Senior Management Bonus Plan, or of recognized ethical standards, will subject the employee to disciplinary action up to and including termination of employment and revocation of any bonuses under this Senior Management Bonus Plan to which the employee otherwise would be entitled.

8. Miscellaneous

- Nothing in this Senior Management Bonus Plan is intended to alter the at-will nature of employment with the Company, that is, the employee's right or the Company's right to terminate the employee's employment at will, at any time with or without cause or advance notice. In addition, acceptance of this Senior Management Bonus Plan shall not be construed to imply a guarantee of employment for any specified period of time.
- This Senior Management Bonus Plan contains the entire agreement between the Company and its employees on this subject, and supercedes all prior bonus compensation plans or programs of the Company and all other previous oral or written statements regarding any such bonus compensation programs or plans.
- Cerus reserves the right to modify any of the provisions of this Senior Management Bonus Plan in its sole discretion at any time with 10 days' written notice to eligible employees; provided, however, that this Senior Management Bonus Plan may not be modified or amended except in a writing signed by a Company officer and upon approval by the Company's Compensation Committee.
- No bonus amounts are guaranteed and all bonuses must be earned in accordance with the terms of this Senior Management Bonus Plan. The Company will make all determinations under the Senior Management Bonus Plan within its sole discretion, including but not limited to: whether a Performance Bonus has been earned and the amount of any Performance Bonus; and whether an employee is in good standing.
- The contents of this Senior Management Bonus Plan are Company confidential.
- This Senior Management Bonus Plan shall be governed by and construed under the laws of the State of California.

* * *

I have read and understand the provisions of this Bonus Plan and hereby accept its terms.

Employee Name (Printed)	Employee Signature	Date

[*] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY BRACKETS, HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24B-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

Exhibit 10.54

COMMERCIALIZATION TRANSITION AGREEMENT

This **COMMERCIALIZATION TRANSITION AGREEMENT** ("Agreement") is entered into on February 12, 2006 (the "Execution Date") and is effective as of February 1, 2006 (the "Effective Date") by and among Baxter Healthcare S.A., a corporation organized under the laws of Switzerland ("BHSA"), Baxter Healthcare Corporation, a company organized under the laws of Delaware ("BHC"), and Cerus Corporation, a company organized under the laws of Delaware ("Cerus"). BHSA and BHC are sometimes collectively referred herein to as "Baxter." The foregoing entities are sometimes referred to herein individually as a "Party" and collectively as the "Parties."

RECITALS

A. Baxter and Cerus are parties to certain agreements, each dated as of February 2, 2005, including Restructuring Agreement, License Agreement, Manufacturing and Supply Agreement, Transition Services Agreement, Trademark License Agreement and Escrow Agreement. Each such agreement will be referred to in this Agreement by the title stated in the preceding sentence, and such agreements will be collectively referred to as the "February 2005 Agreements."

B. Capitalized terms in this Agreement will have the definitions provided in the February 2005 Agreements, except to the extent a different definition is expressly stated in this Agreement for any capitalized term.

C. Pursuant to the February 2005 Agreements, Cerus gained Commercialization Rights to the Plasma System in North America and to the RBC System worldwide.

D. Baxter and Cerus now desire that Cerus gain Commercialization Rights to the Platelet System and the Plasma System worldwide in all territories where Cerus does not already hold such rights, subject to Baxter's retention of rights in the BioOne Territory, as described in Section 1.1 below.

E. The parties also wish to provide for an effective transition of commercialization activities from Baxter to Cerus.

N OW T HEREFORE , in consideration of the premises and the covenants set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows;

1. C OMMERCIALIZATION R IGHTS .

a. Transfer. Effective on the Effective Date, Baxter's Commercialization Rights shall terminate, and Cerus shall gain Commercialization Rights, (i) as to the Platelet System, worldwide, and (ii) as to the Plasma System, in all parts of the world in which Cerus had not previously gained Commercialization Rights. Notwithstanding the foregoing, Baxter shall maintain Commercialization Rights for the Platelet System and Plasma System as to the BioOne Territory, as further provided in Section 4.4 of Restructuring Agreement.

b. Effect. As of the Effective Date, except as to the BioOne Territory, (i) the entire world, will be considered a Reverted Rights Region as to the Platelet System and the Plasma System, (ii) Baxter automatically releases and relinquishes to Cerus all of its licenses and related rights under the Platelet Agreement and the RBC/FFP Agreement as provided in Section 4.2 of the Restructuring Agreement, and (iii) Baxter and Cerus will each henceforth have all rights and obligations allocated to it under the February 2005 Agreements applicable to regions in which Cerus has gained Commercialization Rights, as such rights and obligations may be modified pursuant to the express terms of this Agreement.

c. Regulatory Registration and Applications in Europe. Notwithstanding the foregoing, following the Effective Date, (i) for the Pathogen Inactivation Disposables for the Platelet System, Baxter shall remain as the registrant under the CE Marking regulation and as the registrant or applicant, as the case may be, and as self-declarent for CE marking for any INTERCEPT Illuminators labeled as Baxter units, under national European regulations, and (ii) for the Pathogen Inactivation Disposables for the Plasma System, Baxter shall remain as the applicant for the CE Marking regulation and as applicant under national European regulations, if applicable. Baxter will perform all necessary regulatory activities related to the maintenance of the CE Marking registration for the Pathogen Inactivation Disposables for the Platelet System and the application and CE Marking registration for the Pathogen Inactivation Disposables for the Plasma System, and all necessary regulatory activities relating to INTERCEPT Illuminators, including, but not limited to, complaint handling and vigilance reporting, until the transfer to Cerus occurs pursuant to Section 1(d). Cerus will have the primary discretion to determine the strategy for communications with the European regulatory agencies, subject to Baxter's approval, and Baxter will conduct such communications, including meetings, with the participation of Cerus, where possible. Baxter will notify Cerus of any communications from the European (including European Union and national) regulatory agencies concerning the Platelet System or the Plasma System promptly, but in any event not later than **[*]** , following Baxter's receipt of the communications, including providing Cerus with copies of such communications. Baxter will not make any submission to the European regulatory agencies concerning the Pathogen Inactivation Disposables for the Platelet System or the Pathogen Inactivation Disposables for the Plasma System or the INTERCEPT Illuminators without Cerus prior written consent, which will not be unreasonably withheld. Baxter shall not be required to obtain such consent if a communication to a European regulatory agency is required by law or as a matter of patient safety, but shall notify Cerus in advance of such intended

communication. Cerus will reimburse Baxter for Baxter's cost of such activities as provided in Section 8 of this Agreement.

d. Cerus to Obtain Regulatory Certificates. Baxter and Cerus will meet with TUV to discuss the requirements and strategy for transferring the CE Marking design dossier certificates. Cerus shall use **[*]** to obtain the necessary regulatory quality system certificates in order to allow the transfer of the design dossier certificate for the Pathogen Inactivation Disposables for the Platelet System and the design dossier certificate or application for the Pathogen Inactivation Disposables for the Plasma System from Baxter to Cerus. Transfer of the design dossier certificates or application shall be initiated with TUV no later than upon Cerus' attainment of the necessary quality system certificates. Cerus shall be responsible for any payments required to effectuate the transfer. The parties intend that such transfer shall be completed no later than **[*]** . If Cerus is unable to obtain the necessary regulatory quality system certificates by **[*]** , Cerus shall reimburse Baxter for any additional fees incurred for holding the TUV design dossier certificates after that date.

e. Self-Declaration for Illuminator. Cerus will use **[*]** to comply with the applicable regulatory requirements to make a self-declaration for the Illuminators sold to Cerus and re-labeled as Cerus devices. For this purpose, Baxter will transfer the existing Technical File, as is, to Cerus to allow Cerus to construct its own Technical File for self-declaration purposes. Once the self-declaration has been completed, the regulatory responsibility for the Illuminator will transfer to Cerus and Cerus will remove any Baxter trademark or trade name or other reference to Baxter, except as provided in Section 16(b). Baxter will maintain a Technical File and Self-Declaration for those Illuminators that continue to bear the Baxter mark.

f. Vigilance Records. Upon transfer to Cerus of regulatory responsibility, Baxter will transmit to Cerus copies of all vigilance records relating to the Platelet System and Plasma System.

g. Cerus Plasma System Launch. It is understood and agreed that the Plasma System will be launched as a Cerus product, not as a Baxter product, following Cerus' receipt of the CE Marking registration. As such, prior to launch, Cerus will have assumed all regulatory responsibilities, including design control, label specifications and operator manual. For the purpose of clarity, Baxter continues to have responsibility for manufacture of labels during the term of the Manufacturing Agreement in accordance with Cerus specifications. To assist Cerus in a transition to Cerus manufacturing, Baxter will introduce Cerus to Baxter's labeling supplier.

2. ESCROW ACCOUNT.

a. Any funds remaining in the Escrow Account as of December 31, 2005 shall be subject to the provisions of this Section 2 and shall not be disbursed to the parties pursuant to Section 2.9 of the Restructuring Agreement. Such Section 2.9 is superseded by the provisions of this Agreement. Any funds deposited in the Escrow Account subsequent to December 31, 2005 shall also be subject to the provisions of this Section 2.

b. Within five days after the Execution Date (the "Disbursement Date"), funds will be distributed from the Escrow Account as follows:

(i) To Baxter [*] ($[*]) with respect to marketing and promotional expenses pursuant to Section 2.7 of the Restructuring Agreement allocable to 2005;

(ii) To Baxter, the accrued interest on the funds deposited in the Escrow Account earned through the Execution Date;

(iii) To Baxter, the amount of [*] Dollars ($[*]), in consideration of the sale to Cerus of Illuminators, as provided in Section 7 of this Agreement;

(iv) To Cerus, the amount of [*] ($[*]) with respect to marketing and promotional expenses pursuant to Section 2.7 of the Restructuring Agreement allocable to 2005.

c. [*] Dollars ($[*]) shall be retained in the Escrow Account and shall be available for disbursement from the Escrow Account at Cerus' direction to reimburse Baxter for activities that Baxter may undertake after [*] at Cerus' request to continue development activities for the Plasma System directed toward CE Marking approval and launch in the European Territory and related manufacturing and validation, thereby releasing Cerus of the obligation for such payment from its own funds. All interest on this amount shall be paid to Baxter at the end of the [*].

d. Following the disbursements pursuant to subparagraph (b) above, and subject to amounts retained in the Escrow Account pursuant to subparagraph (c) above, there shall be disbursed to Cerus on the Disbursement Date the entire remaining amount of the Escrow Account, being not less than [*] Dollars ($[*]). The amount disbursed to Cerus pursuant to this subsection (d) shall be referred to in this Agreement as the "Commercialization Disbursement."

e. The parties each agree to execute and deliver to the Escrow Agent disbursement instructions consistent with the provisions of this Section 2.

f. Baxter will submit to Cerus all qualified expenses incurred by Baxter from [*]. Cerus shall promptly reimburse such expenses, unless there is a reasonable basis to object to the payment of the expense.

3. EXPENSES CONCERNING COMMERCIALIZATION DISBURSEMENT.

a. Cerus will use the Commercialization Disbursement to support expenses incurred in 2006 (including expenses from January 1, 2006 to the Effective Date as well as expenses after the Effective Date) for activities directly and exclusively associated with European commercialization of the Platelet System and Plasma System ("Qualifying Expenses").

(i) Examples of Qualifying Expenses are:

A. Sales, marketing, regulatory, reimbursement, publication and training expenses.

B. All direct expenses associated with Phase IV, customer experience and product surveillance trials or studies.

C. All expenses associated with advocate development and customer meetings, congresses and conventions.

D. All fees and expenses of consultants retained to execute programs associated with the functions identified above.

E. All fully-loaded salary and fringe benefit expenses for Cerus European employees retained to execute programs associated with the functions identified above **[*]** Dollars ($ **[*]**).

F. All consultant or Cerus employee travel and travel-associated business expenses.

G. Illuminator upgrade expenses.

H. [*] as requested by customers for **[*]** purposes.

(ii) Examples of expenses that are not Qualifying Expenses are:

A. Any expenses that Cerus was incurring prior to **[*]** unless those expenses were reimbursable from the Escrow Account.

B. The [*] Dollars ($[*]) of fully-loaded salary and fringe benefit expenses for Cerus European employees added to the project after [*].

C. Facilities charges (rent, utilities, etc.) relating to Cerus Europe's incorporation, excluding the development of a demonstration suite.

D. Any expenses for initiatives that directly promote the Red Blood Cell System, other Cerus products (other than the Platelet System and the Plasma System) or the Cerus corporate brand.

b. Following **[*]** and **[*]** , Cerus will submit to Baxter an itemization of Qualifying Expenses and associated activities for the preceding **[*]** . If Baxter disputes that any of the expenses constitute Qualifying Expenses, Baxter will so notify Cerus in writing within **[*]** of receipt of Cerus' itemization. Any expenses not disputed within such time period are accepted as Qualifying Expenses, not subject to dispute. If not otherwise resolved, any disputes will be resolved through arbitration pursuant to Section 26(l) hereof.

c. If Cerus has any question whether particular activities represent Qualifying Expenses, Cerus may make a written request to Baxter asking for Baxter's response to such question. In the event that Baxter concurs that the activities represent Qualifying Expenses, or in the event that Baxter fails to respond in writing **[*]** after receipt of Cerus' request, the expenses associated with such activities will be considered Qualifying Expenses, not subject to dispute. If not otherwise resolved, any disputes will be resolved through arbitration pursuant to Section 26(l) hereof. Cerus may decide, in its sole discretion, whether to make such request concerning particular activities, and the failure to make such request in any instance shall not imply that the activities do not represent Qualifying Expenses.

d. Following **[*]** , Cerus and Baxter will compare the aggregate amount of the Qualifying Expenses to the amount of the Commercialization Disbursement. If the aggregate Qualifying Expenses are less than the Commercialization Disbursement, Cerus shall remit to Baxter one-half of the amount by which the Commercialization Disbursement exceeds the Qualifying Expenses. Such remittance shall be made on or before **[*]** ; provided that if there is a dispute concerning the calculation of Qualifying Expenses, such remittance shall be made upon resolution of such dispute by mutual agreement or through arbitration pursuant to Section 26(l) hereof.

4. PAYMENT . On or before the Disbursement Date, Baxter will pay to Cerus the amount of **[*]** Dollars ($ **[*]**). On or before **[*]** , Baxter will pay to Cerus the amount of **[*]** Dollars ($ **[*]**).

5. SOFTWARE .

a. Delivery of Code and Documentation. Promptly following the execution of this Agreement, Baxter will deliver to Cerus true and correct copies of the source code and object code and documentation for all software pertaining used or being developed for use in connection with Products, including the data management system (IDMS). No software, including Derivative Works, shall be released or sold into the market by Cerus which includes, or causes to be displayed, any Baxter trademark or trade name or other reference to Baxter, except as provided in Section 16.b.

b. Completion of Illuminator Software Development. Baxter will complete the Priority 1 and Priority 2 modifications of the software for the Plasma System INTERCEPT Illuminator (and corresponding changes in the Platelet System software) according to the agreed work plan attached as Exhibit A, enabling CE Marking self-declaration for the Plasma System INTERCEPT Illuminator. Baxter shall use its [*] to complete such modifications by [*] and in any event shall complete such activities by [*]. Baxter warrants that such software, including, Priority 1 and Priority 2 changes identified on such Exhibit A, will function properly, including operation in accordance with specifications and compliance with applicable European medical device regulations. **Except as set forth in this Agreement and in the License Agreement, Baxter makes no warranties, written, oral, express or implied, with respect to the INTERCEPT Illuminator software. EXCEPT AS SET FORTH IN THIS AGREEMENT AND IN THE LICENSE AGREEMENT, BAXTER DISCLAIMS ALL WARRANTIES, EXPRESS OR IMPLIED WITH RESPECT TO THE INTERCEPT ILLUMINATOR SOFTWARE, INCLUDING WITHOUT LIMITATION THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE AND NONINFRINGMENT.**

c. IDMS. The parties agree that Baxter shall have no obligation for development of IDMS software for the Plasma System. **Except as set forth in the License Agreement, as to IDMS software for the Platelet System, Baxter makes no warranties, written, oral, express or implied. EXCEPT AS SET FORTH IN THIS AGREEMENT AND IN THE LICENSE AGREEMENT, BAXTER DISCLAIMS ALL WARRANTIES, EXPRESS OR IMPLIED WITH RESPECT TO THE IDMS SOFTWARE, INCLUDING WITHOUT LIMITATION THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE AND NONINFRINGMENT.**

6. ASSIGNMENT OF CUSTOMER CONTRACTS AND PURCHASE ORDERS. As of the Effective Date, the customer contracts and purchase orders relating to the Platelet System are automatically assigned to Cerus, to the extent assignment is permitted; provided that Cerus shall not be assigned any rights, or assume any obligations not pertaining to sales of the Platelet System. Notwithstanding the foregoing, within **[*]** after receipt of the translated customer contracts or **[*]** after the Execution Date, whichever is later, Cerus may reject the assignment and assumption of any contract obligations that Cerus deems onerous, in which case the parties will negotiate in good faith to resolve such matter. For contracts and purchase orders requiring customer consent to assignment, Baxter will use **[*]** to obtain such consent or transition to direct customer relationship with Cerus. To the extent Cerus receives after the Effective Date any payment from a customer allocable to delivery of Platelet System products prior to the Effective Date, Cerus will remit the amount of such payment to Baxter. To the extent that Baxter receives any payment from a customer allocable to delivery of Platelet System products after the Effective Date, Baxter will remit the amount of such payment to Cerus. Baxter will indemnify Cerus for any defense, right of set-off or claim by a Customer, which arose prior to the Effective Date, that would interfere with Cerus' ability to collect payment for products delivered after the Effective Date or create

potential liability of Cerus. Baxter and Cerus will cooperate on notification to customers concerning the assignment of contracts and purchase orders pursuant to this Agreement.

7. Sale Of Inventory.

a. INTERCEPT Illuminators. As of the Effective Date, Baxter hereby transfers, assigns and conveys to Cerus **[*]** INTERCEPT Illuminator devices currently held by Baxter in inventory, identified by Serial number on Exhibit B to this Agreement, and **[*]** Illuminators in the field, owned by Baxter for the Platelet System (the "Illuminators"), in consideration of the disbursement referenced in Section 2(b)(iii) above. Cerus will pay Baxter's actual cost for Baxter to upgrade all Illuminators to version/model R008 before transfer to Cerus. Exhibit C specifies the estimated cost for such upgrade. Baxter warrants that the transferred Illuminators met applicable Baxter acceptance tests and release tests, and Baxter does not have any reason to believe they are defective. Otherwise, the Illuminators are transferred **[*]** Baxter warrants that the upgrade will comply with applicable specifications and European medical device requirements and will be free from deficiencies impairing the operability or safety of the systems. The Baxter mark will be eliminated by Baxter from all upgraded Illuminators in a manner that does not detract from the operation or appearance of the Illuminators. The terms of the Transition Services Agreement relating to warehousing and distribution services and related systems (including inventory maintenance, shipping and receiving) will apply to the Illuminators. Baxter will protect the Illuminators against loss, damage or destruction during the period they are in Baxter's possession.

b. Disposables Safety Stock. Baxter will maintain at all times an inventory reserve of specified Components and finished Platelet System and Plasma System disposables (in excess of products designated for immediate shipment), as Cerus may specify from time to time. Baxter will invoice Cerus for such Components and finished product as it is initially placed in inventory, and for any increases in the reserve inventory thereafter requested by Cerus and placed in inventory by Baxter.

c. Disposables Inventory. As of the Effective Date, Cerus purchases, under the Manufacturing Agreement, Baxter's presently existing Platelet System inventory consisting of an approximately [*]. Baxter will invoice Cerus for such sale and Cerus shall pay such invoice within [*].

8. Supplemental Transition Services. In addition to the services already provided for in Section 10 hereof and in the Transition Services Agreement, at Cerus' reasonable request, Baxter will provide the following supplemental transition services relating to European activities. Baxter personnel will provide such services at **[*]** specified in Exhibit D. Certain Baxter regulatory and technical support is also included in the Plasma System development services specified in Exhibit F to this Agreement, and Cerus shall not have any payment obligation to Baxter for such specific services beyond the payment amount specified in such Exhibit.

a. Clinical study sponsorship activities to continue the currently registered clinical studies in Europe until Cerus is qualified, under the applicable regulatory guidelines, to take over the sponsorship;

b. Regulatory and clinical support, including product vigilance reporting and complaint handling, until the CE Marking registrations are transferred, as further defined in Exhibit E;

c. Installation, maintenance and calibration of INTERCEPT Illuminators in the field until December 31, 2006; as part of such services Baxter will maintain an inventory of spare parts, which it will sell to Cerus **[*]** as of December 31, 2006, it being understood that Baxter has no obligation to avoid obsolescence of spare parts inventory;

d. Clinical education and training until December 31, 2006;

e. Manufacturing technical information and advice until December 31, 2008, to the extent that Cerus requires it beyond the technical advice meetings provided for under the Manufacturing Agreement, which is limited to [*] meetings per year.

The services will be provided by Baxter personnel in the positions identified on such Exhibit D.

9. MARKETING MATERIALS; INTERCEPT WEB SITE; INTERCEPT INTRANET.

a. Within **[*]** after the Effective Date, Baxter will deliver to Cerus, at no cost to Cerus except shipping costs, all marketing materials that have been produced for the INTERCEPT Blood System products, which Baxter owns. Cerus will remove Baxter's mark before making use of the materials, except for references to Baxter as appropriate to reflect Baxter's continuing ownership of regulatory registrations and applications pursuant to Section 1(c) hereof. Included within the marketing materials to be provided to Cerus, Baxter will deliver to Cerus the ELIPS demonstration suite, at no cost other than shipping cost to the destination designated by Cerus.

b. Baxter hereby assigns, transfers and conveys to Cerus all right, title and interest in the website denominated *www.interceptbloodsystem.com* including all intellectual property rights in software, which Baxter owns, associated with such website. Promptly following the Execution Date, Baxter will deliver to Cerus true and correct copies of the source code and object code and documentation pertaining to such system. Promptly following the Execution Date, the parties will cooperate to adapt the website to reflect the changes effected by this Agreement, with each party bearing its own expenses for such activities.

c. Baxter hereby assigns, transfers and conveys to Cerus all right, title and interest in the INTERCEPT content of the Baxter INTERCEPT intranet website. Promptly following the Effective Date, Baxter will transmit such content to Cerus and Cerus shall remove the Baxter mark before making use of the content, except for references to Baxter as appropriate to reflect Baxter's continuing ownership of regulatory registrations and applications pursuant to Section 1(c) hereof. Promptly following the Effective Date, the parties will cooperate to adapt the website to reflect the changes effected by this Agreement, with each party bearing its own expenses such activities.

10. PLASMA DEVELOPMENT. With respect to activities directed toward obtaining CE Marking for the Pathogen Inactivation disposables for the Plasma System, and self-declaration of the Illuminator for such System, and related manufacturing and validation, Baxter agrees, at Cerus' request and expense, to carry out the further development activities set forth on Exhibit F to this Agreement. Baxter shall use **[*]** to achieve all specified target dates and in any event shall complete all deliverables as provided in Exhibit F. The charge for such activities will not exceed the amount set forth in Section 2(c) hereof, provided that the scope of such activities is not expanded. Cerus shall own any data, invention, discovery, improvement, patent right, copyright, trademark or other intellectual property right made or conceived by Baxter, that is unique to the Plasma System, and that arises out of the development activities herein and the development activities conducted by Baxter under the Restructuring Agreement, and such rights are hereby assigned to Cerus to the extent not previously assigned. For the sake of clarity, the above shall not include rights to those technologies, formulations, sub-assemblies, components and raw materials excluded in Section 2.4 of the 2005 License Agreement or anything else not unique to the Plasma System. With respect to any invention, discovery, improvement, patent right, copyright, trademark or other intellectual property right made or conceived by Baxter, that is not unique to the Plasma System, and that arises out of the development activities herein and the development activities conducted by Baxter under the Restructuring Agreement, Baxter grants to Cerus an exclusive license in the Field of Use for Plasma Systems.

11. PLATELET DEVELOPMENT SUPPORT. Baxter will continue to provide the support specified on Exhibit G hereto at Baxter's own expense until December 31, 2006. Baxter will provide to Cerus written reports upon completion of such activities and interim updates as Cerus may reasonably request, and will provide copies of all records of such activities as Cerus may reasonably request in support of Cerus' activities.

12. MILESTONE PAYMENT. With respect to the milestone payment pursuant to Section 9.5 of the Restructuring Agreement, the CE Marking filing date shall be the date Baxter transmits the complete CE Marking Application via electronic or other delivery method. All other provisions of Section 9.5 of the Restructuring Agreement will remain unchanged.

13. TRANSITION SERVICES AGREEMENT.

a. Section 7.0(a) Transition Services Agreement is amended to read in full as follows: "This TSA shall be effective for the period beginning on the Effective Date of the Commercialization Transition Agreement and extending through December 31, 2006." As to Section 2.0(a) of the Transition Service Agreement, Baxter's compensation for the Transition Services is reduced from **[*]** percent (**[*]** %) to **[*]** percent (**[*]** %) of the total invoiced amount for Products shipped on behalf of Cerus. For clarification, Baxter's compensation for Supplemental Transition Services, pursuant to Section 8 hereof, shall be in addition to the compensation under the Transition Services Agreement.

b. Section 2.0 (b) of the Transition Services Agreement is deleted in its entirety and replace by the following: " Remittal or Revenues . On a monthly basis, no later than the **[*]** day of each month, Baxter will remit a payment to Cerus equal to the total invoice amount for shipments that occurred **[*]** or more prior to the first day of such month. Baxter will make such payments during the term of the TSA whether such invoice has been paid or not. All remittals made pursuant to this Agreement shall be made by direct deposit to a Cerus account to be specified by written notice from Cerus to Baxter."

c. Section 2.0 (c) is amended to add the following sentence: "Cerus shall pay Baxter for all transferred open accounts receivable within **[*]** of receiving Baxter's reconciliation report."

d. Section 3.0 (d) is deleted in its entirety.

14. LICENSE AGREEMENT.

a. The definition of "Residual Products" in the License Agreement shall be amended to read in full as follows: "Residual Products" means any products within the Field of Use containing amotosalen or S-303 that are not included within the definition of Platelet Products, the Plasma Products or RBC Products."

b. Section 2.1(b) of the License Agreement shall be amended to read in full as follows: "a nonexclusive, royalty-bearing right and license to use, reproduce, display, translate, distribute copies of, and to modify and create derivative works of the Licensed Materials within the respective parts of the Territory set forth in Clause 2.1(a); *provided, however,* that such license shall be an exclusive (even as to Baxter) license in the Field of Use only as to the Design History Files, as defined below, relating to (i) amotosalen-treated blood components, (ii) S-303-treated blood components, (iii) INTERCEPT Illuminators, and (iv) compound adsorption devices employed in the Systems except to the extent necessary for manufacturing or packaging. For purposes of clarity, the above exclusive license is limited to the actual Design History Files and does not otherwise include know-how or other Licensed Materials outside of the Design History Files. Notwithstanding the foregoing, to the extent that any particular element of Licensed Materials was developed or obtained by Baxter outside the course of the Cooperative Development Work (as such term was defined under the Platelet Agreement

and RBC/FFP Agreement) or development activities pursuant to the Restructuring Agreement or this Agreement, Cerus' license to such element of Licensed Materials shall be limited to use in connection with systems involving amotosalen or S-303 as an active agent and Baxter retains the right to use such element on pathogen inactivation systems not involving amotosalen or S-303 as an active agent.

c. Section 5.1 of the License Agreement is amended by adding a Section 5.1 (c) to read as follows: "(c) Notwithstanding the foregoing, Cerus and its Affiliates shall not be obligated to pay any royalties to Baxter upon the sale prior to December 31, 2006 of Platelet Products or Plasma Products, or upon royalties received upon a sublicensee's sale of Platelet Products or Plasma Products prior to such date."

d. Section 5.6 of the License Agreement is amended by deleting all text after the first sentence of such Section.

e. As used in Section 14(c), "Design History Files" means identifiable and tangible records contained in, or comprising, regulatory filings, technical file, bills of material, drawings, specifications, design test plan, design requirements definition, requirements traceability matrix, design verification testing, design reviews and Failure Mode Effects Analysis.

15. MANUFACTURING AGREEMENT.

a. Section 3.1(a) of the Manufacturing Agreement is amended by adding a sentence to read as follows: "Notwithstanding the foregoing, for Manufactured Products ordered prior to December 31, 2006, the Manufacturing Fee shall be limited to [*] percent ([*]%) of Baxter's Cost of Goods, for products that are purchased for commercial use and [*] percent ([*]%) of Baxter's actual cost for products that are purchased for clinical or preclinical studies."

b. A new Section 3.1 (c) is added to the Manufacturing Agreement as follows: "At the end of each calendar year, Baxter will calculate Manufacturing Variances for the Manufactured Products. Positive variances will be returned to Cerus, negative variances will be billed to Cerus and paid to Baxter within thirty (30) days. Baxter will calculate the Manufacturing Variances in a manner consistent with its financial procedures as used to calculate manufacturing variances for other products it manufactures.

c. Notwithstanding Section 15(b), in no event shall any Manufacturing Variance adjustment, nor any adjustment in Cost of Goods under the Manufacturing Agreement, be based on or result in:

(i) any increase of the Overhead portion of the Platelet Set or Plasma Set Cost of Goods beyond the amount set forth in paragraph (a) of the "Cost of Goods" definition in the Manufacturing Agreement,

(ii) any increase of the aggregate Overhead allocated over all Platelet Sets or Plasma Sets shipped in one calendar year beyond the amount set forth in paragraph (b) of the "Cost of Goods" definition in the Manufacturing Agreement,

(iii) any increase of the Overhead portion of any Component with a "Cost of Goods" in excess of $ **[*]** beyond the amount set forth in paragraph (c) of the "Cost of Goods" definition in the Manufacturing Agreement,

(iv) any increase of the Overhead portion of the Platelet Set or Plasma Set Cost of Goods beyond the amounts set forth on Exhibits C and D, respectively, of the Manufacturing Agreement for annual purchases in the respective volumes noted on such exhibits.

d. With respect to vendors supplying raw materials and components for manufacture of the Platelet System and the Plasma System, the Parties wish to clarify their respective rights and responsibilities. Baxter, as the manufacturer under the Manufacturing Agreement, is responsible to enter into contractual arrangements with vendors to enable Baxter to manufacture products in accordance with specifications and other requirements of the Manufacturing Agreement. The sole exception to such Baxter responsibility is the supply of amotosalen at **[*]** , which remains the responsibility of Cerus. Cerus' obligation to supply amotosalen **[*]** shall survive the termination of the Manufacturing Agreement, if Baxter is still obligated to supply amotosalen to BioOne. Cerus, as the purchaser and reseller of the products, has an interest both in **[*]** from vendors and in **[*]** . Baxter will **[*]** Cerus in the **[*]** Cerus to **[*]** in the negotiation process. All new vendor contracts shall be entered **[*]** with the vendor. The preceding sentence does not apply to suppliers of materials, Components and services, such as plastics, that Baxter purchases primarily for manufacture of products other than INTERCEPT products. Baxter also has the responsibility to qualify vendors and changes to Components in accordance with Baxter's quality requirements and applicable legal requirements; provided that Cerus will **[*]** Baxter for **[*]** in qualifying with regulatory agencies any vendor or Components which are required after the Effective Date, either at the request of Cerus or due to circumstances beyond Baxter's control. Notwithstanding the foregoing, Cerus will take responsibility for quality systems approval for **[*]** or other vendor of **[*]** for use in manufacture of **[*]** in accordance with a Cerus TUV-approved quality system. Baxter agrees to accept such quality approval and agrees not to impose additional quality approval requirements on such vendor for Components used in Manufactured Products.

e. Notwithstanding any provision of the Manufacturing Agreement, Cerus may purchase INTERCEPT Illuminator devices directly from Baxter's supplier of such devices, and need not purchase such devices from Baxter. Cerus agrees not to sell such devices to **[*]** until Baxter has disposed of its remaining inventory (i.e., the INTERCEPT Illuminators remaining in Baxter's inventory immediately following the sale pursuant to Section 7(a) hereof, estimated at approximately **[*]** devices).

f. A new Section 2.1 (h) is added to the Manufacturing Agreement as follows: "Baxter shall have the responsibility to resolve technical issues with third party vendors related to the supply of components and the manufacture of the Products. Cerus will reimburse Baxter for such activities, as required, at a rate of $ **[*]** ; *provided that* the cost of such activities is not included in Baxter's Cost of Goods."

g. A new Section 4.1 (f) is added to the Manufacturing Agreement as follows: "Notwithstanding any other provision hereof, upon termination of this Agreement, Cerus shall purchase all finished goods inventory of the Manufactured Products at the price specified in Section 3.1(a) and all inventory of Components at **[*]** . Baxter will transfer all inventory and invoice Cerus, which invoice shall be paid in **[*]** ."

16. T RADEMARKS .

a. The Trademark License Agreement is superseded, as of the Effective Date, by a Trademark Assignment Agreement being entered into concurrently with this Agreement, assigning to Cerus all rights pertaining to the "INTERCEPT" and "INTERCEPT Blood System" marks and related marks. It is understood and agreed that Baxter has previously granted a license to **[*]** to use certain such marks in Singapore, and to **[*]** , pursuant to agreement dated **[*]** , **[*]** , pursuant to agreement dated **[*]** , and **[*]** , pursuant to agreement dated **[*]** , to use certain mark as in various territories, and Cerus takes such assignment of marks subject to such license agreements.

b. It is understood that the "Baxter" mark appears on Products, marketing materials, labels, packaging and inserts and related materials and websites that have been made or created prior to the date of this Agreement, and may appear on Products and related materials produced after the Effective Date and before such mark can be practically removed or replaced. In connection with the transition contemplated by this Agreement, Cerus will have the right to continue such usages after the Effective Date on a temporary basis with respect solely to such Products and materials. Cerus shall have no other rights respecting the "Baxter" mark, it being understood that Cerus shall not be precluded from disseminating information to the effect that Baxter is the manufacturer of Products, or that Products were co-developed with Baxter. The parties shall cooperate to expeditiously remove or replace the "Baxter" mark on the materials described above and to make other appropriate changes relating to the transition contemplated by this Agreement, with each party bearing its own expenses in connection with such activities. It is understood that Baxter's cost of changes of labels, packaging and product inserts will be included in the Cost of Goods for Manufactured Products.

17. D OCUMENTS ; M ARKETING M ATERIALS . Without limiting any other provisions relating to documents or data in the February 2005 Agreements or this Agreement, Baxter will provide to Cerus such documents as Cerus may reasonably request relating to the transition of commercialization or manufacturing activities. Baxter will designate in writing an individual to receive requests for documents from Cerus. The designated individual may be changed by written notice to Cerus. Such documents will include the documents identified on Exhibit H hereto, to be delivered not later than

the respective dates identified on such Exhibit. Pursuant to Section 3.1 of the License Agreement and Section 6.2 of the Manufacturing Agreement, these documents will be provided by Baxter at no cost to Cerus.

18. INTERSOL .

a. Without limiting Baxter's obligations concerning Intersol Products in the Restructuring Agreement, Baxter agrees to make available to its customers Intersol Products to address all platforms, existing or commonly used by customers for collection of platelets, as of the Effective Date. In addition, Baxter agrees to supply Intersol Products to Cerus in such configurations as Cerus may require; *provided that* Baxter shall not be required to supply Intersol Products in a particular region **[*]** unless Baxter **[*]** within said region. Cerus will reimburse Baxter for any additional expenses Baxter may reasonably need to incur to produce and register such new product configuration. In addition, **[*]** , Cerus will be released from the restriction set forth in Section 2.4 of the License Agreement, or otherwise, on providing **[*]** to customers or licensing it for use by customers.

b. For all new customer contracts entered after the Effective Date, for Intersol Products, Baxter agrees that the price charged for the collection products or pooling products containing Intersol will not exceed the [*] charged for Baxter's comparable collection products and pooling products containing [*] in the same country over the six (6) months preceding the date of measurement. To the extent Baxter is not selling an additive solution in a country, the [*] will be calculated on the sales in all countries of Baxter's [*]. With respect to new Intersol Products, not available on the Effective Date, or in the event Baxter ceases to sell any configuration of collection or pooling product containing [*], the parties will mutually agree upon [*], to avoid [*]. In the event that Baxter's pricing for Intersol Products exceeds the [*], Cerus shall be entitled, to receive from Baxter [*], and such payment shall be subject to the [*] and such payment shall be considered [*]

c. Baxter will sell to Cerus such Intersol Products as Cerus may require, including without limitation the Intersol Products listed on Exhibit I hereto, for resale by Cerus to its INTERCEPT product customers. Such sales to Cerus will be at a price not exceeding the **[*]** for which **[*]** to a **[*]** a **[*]** in the **[*]** . If **[*]** obtain a **[*]** from the **[*]** for **[*]** within said **[*]** , the price for stand-alone or bulk Intersol will not exceed the **[*]** at which **[*]** in the same **[*]** .

d. The provisions of Section 18(a) and 18(b) above supersede the provisions of the Restructuring Agreement providing for the payment by Baxter to Cerus of royalties upon the sale of Intersol Products and related provisions. Accordingly, Sections 9.7 of the Restructuring Agreement is deleted from the Agreement, except for the first sentence of Section 9.7, which defines Intersol Products, the definitions set forth in Section 9.7(f) to the extent relevant to terms used in this Agreement, and Section 9.7(j) regarding the termination of Intersol sales. In addition to the restrictions set forth in Section 9.7(j), Baxter will not cease making Intersol products available until Baxter has

obtained a release from the restrictions for manufacture or sale of stand-alone or bulk Intersol Solution, as contemplated by Section 18(a) hereof.

19. Concerning Third-Party Intersol Rights. In the event that Baxter obtains a **[*]** from **[*]** of **[*]** relating to **[*]** in the **[*]** held by **[*]**, including **[*]**, Cerus shall pay to Baxter the lesser of (x) **[*]** percent (**[*]** %) of the amount paid by Baxter to **[*]** to obtain **[*]**, or (y) $ **[*]**. For the sake of clarity, this payment is **[*]** to the payment described in **[*]** dated February 2, 2005.

20. Payment to Baxter Capital Corporation. Immediately upon receipt by Cerus of the disbursement pursuant to Section 2(d) hereof, Cerus shall repay to Baxter Capital Corporation the principal amount of Four Million Five Hundred Thousand Dollars ($4,500,000), plus interest accrued to the date of such payment, in full satisfaction of Cerus' obligations to Baxter Capital Corporation. Contemporaneously with receipt of payment, Baxter Capital will deliver to Cerus the original cancelled Note and will promptly execute and file such documents as are necessary or appropriate to evidence and effectuate release of any liens securing the Note.

21. Warranties and Representations. As of the Effective Date, Baxter represents and warrants to Cerus as follows:

a. To Baxter's knowledge, there are no material defects in the Platelet or Plasma System that would render either inoperative, unsafe or noncompliant with applicable law, which have not been previously disclosed to Cerus or which are not already known to Cerus.

b. Baxter has made or will cause to be made all necessary and required material reports and filings with the appropriate European Union and European National regulatory authorities where the Platelet System is currently being marketed or sold.

c. To its knowledge, Baxter has not received written notification from a European Union or European National regulatory agency pertaining to a material deficiency that would materially affect Baxter's ability to market or sell the Platelet or Plasma System.

d. Baxter has not materially breached any of the contracts to be assigned to Cerus.

22. Effect on February 2005 Restructuring Agreement. Attached as Exhibit J to this Agreement is an outline indicating the effect of this Agreement on provisions of the Restructuring Agreement to assist in the interpretation of this Agreement and the Restructuring Agreement. To the extent there is any conflict between such outline and the express terms of this Agreement, the terms of this Agreement shall prevail.

23. MUTUAL RELEASES.

a. Baxter's Release. Upon execution of this Agreement and subject to the complete fulfillment and performance of all conditions set forth herein, Baxter together with its respective predecessors, affiliates, assigns, representatives, agents, attorneys, partners, employees and insurers hereby fully releases, remises, forgives and discharges (collectively "Releases") Cerus, together with its respective predecessors, affiliates, assigns, representatives, agents, attorneys, partners, employees and insurers from all claims, actions and causes for action (whether at law, in equity, or otherwise), disputes, demands, counterclaims, arbitrations, duties, debts, suits, damages, obligations, costs, expenses, liens, liabilities, accounts, reckonings, rights, rights of action, rights of indemnity (whether legal or equitable), rights of subrogation, rights to contribution, defenses, setoffs and remedies of any nature whatsoever, (collectively "Claims") whether known or unknown, which Baxter has, or ever had, or, may hereafter have, for, upon, or by reason of any matter, cause, or thing, of any nature whatsoever, except as set forth in Section 10.3 of the Restructuring Agreement, occurring at any time or times up to the date of this Agreement (but not including obligations under this Agreement); *in each case solely to the extent arising out of* any failures of Cerus to have performed any of its obligations under the Platelet Agreement, the RBC/FFP Agreement, and the February 2005 Agreements. Baxter acknowledges and affirms that it is not relying on, and has not relied on, any representation or statement made by Cerus with respect to the facts involved in this release or with regard to the rights or asserted rights of Baxter. Baxter hereby assumes all risk with respect to any mistakes of fact with regard to this release and with regard to all facts which are now unknown to Baxter relating thereto.

b. Cerus' Release. Upon execution of this Agreement and subject to the complete fulfillment and performance of all conditions set forth herein, Cerus, together with its respective predecessors, affiliates, assigns, representatives, agents, attorneys, partners, employees, and insurers hereby fully releases, remises, forgives and discharges (collectively "Releases") Baxter, together with its respective predecessors, affiliates, assigns, representatives, agents, attorneys, partners, employees and insurers from all claims, actions and causes for action (whether at law, in equity, or otherwise), disputes, demands, counterclaims, arbitrations, duties, debts, suits, damages, obligations, costs, expenses, liens, liabilities, accounts, reckonings, rights, rights of action, rights of indemnity (whether legal or equitable), rights of subrogation, rights to contribution, defenses, setoffs and remedies of any nature whatsoever (collectively "Claims"), whether known or unknown, which Cerus has, or ever had, or, may hereafter have, for, upon, or by reason of any matter, cause, or thing, of any nature whatsoever, except as set forth in Section 10.3 of the Restructuring Agreement, occurring at any time or times up to the date of this Agreement (but not including obligations under this Agreement); *in each case solely to the extent arising out of* any failures of Baxter to have performed any of its obligations under the Platelet Agreement, the RBC/FFP Agreement or the February 2005 Agreements. Cerus acknowledges and affirms that it is not relying on, and has not relied on, any representation or statement made by Baxter with respect to the facts involved in this release or with regard to the rights or asserted rights of Cerus. Cerus hereby assumes all risk with respect to any mistakes of fact with regard to this release and with regard to all facts which are now unknown to Cerus relating thereto.

c. Survival of other Agreements and Claims. It is understood and agreed that the February 2005 Agreements survive this Agreement and remain in effect, as amended by this Agreement. Nothing in this Agreement is intended to alter the rights and obligations of the Parties that have accrued to the Parties under the Platelet Agreement, the RBC/FFP Agreement or the February 2005 Agreements to the date hereof, except solely to release Claims for any failure to perform, as expressly stated in Sections 23(a) and 23(b) of this Agreement. It is further understood and agreed that, notwithstanding Sections 23(a) and 23(b), neither Party releases the other Party from any Claims (i) specifically for amounts that have accrued, but are unpaid, as of the date hereof (A) for Revenue Sharing Payments (as defined in the Platelet Agreement and RBC/FFP Agreement), (B) for Cooperative Development Work (as defined in the Platelet Agreement and RBC/FFP Agreement) or (C) for payments due to either Party or work performed by either Party under the February 2005 Agreements, or (ii) arising from inaccuracies that may be discovered in any payments that have previously been made or credits given, or the accounting or reporting thereof, in respect of any of the matters referred to in clause (ii) immediately above, including without limitation any of the same discovered through audit.

24. TERMINATION OF CERTAIN AGREEMENTS.

a. The Development, Manufacturing and Marketing Agreement between Cerus and BHC dated as of December 10, 1993, as amended (the "Platelet Agreement) and the Development, Manufacturing and Marketing Agreement dated as of April 1, 1996, as amended and restated June 30, 1998, and as further amended (the "RBC/FFP Agreement") are terminated as of the Effective Date and accordingly, Sections 10.3 and 11.1 of the Restructuring Agreement, to the extent inconsistent with the above, are not incorporated by reference and do not survive this Agreement; *provided that* any financial obligation accruing to either party under either such agreement prior to the Effective Date shall remain in effect until satisfied. Notwithstanding the foregoing termination, Sections 8.1 and 8.2, Section 12.1 of the Platelet Agreement and the amendment to the Platelet Agreement affected by Section 14 ***Indemnification*** of the Restructuring Agreement, shall survive termination of the Platelet Agreement, and Section 15 ***Books and Records*** of the Platelet Agreement shall survive for a period of **[*]** . Notwithstanding the foregoing termination, those provisions of the RBC/FFP Agreement that are expressly stated to survive termination, pursuant to Section 20.13 of the RBC/FFP Agreement shall survive in accordance with the terms of such Section 20.13, and Sections 8.1, 8.2, 8.3, 8.5 and 8.6(a) shall also survive. For the sake of clarity, the parties agree that the confidentiality provisions of the Platelet Agreement and the RBC/FFP Agreement referenced above survive, and that the provisions of Article 4 of the 2005 License Agreement, including Section 4.3, which shall be reciprocal and shall be mutually and equally applied to Cerus and Baxter, shall continue under the terms of this Agreement. The Parties agree that, subject to Section 4.3 of the License Agreement, the information comprising the Licensed Patents, and the information comprising the Licensed Materials as to the Design History Files, licensed exclusively to Cerus pursuant to Section 2.1(b) of the License Agreement, as amended herein, shall be considered

Confidential Information of Cerus. It is understood that a requirement to disclose Confidential Information to a regulatory body pursuant to Section 4.3(d) of the License Agreement, or a disclosure made under the circumstances described in Section 4.3(e) of the License Agreement, that does not place the disclosed information in the public domain, does not alter the obligations hereunder with respect to other disclosure or use of such information.

b. In view of the foregoing and notwithstanding any surviving provisions of the 2005 Restructuring Agreement, or any other agreement between Baxter and Cerus to the contrary, except as Baxter and Cerus may be limited by law, by patent rights not licensed hereunder , by the exclusive license to Licensed Patents and Licensed Know-How in Section 2.1(a) of the License Agreement, by the exclusive license to the Design History Files in Section 2.1(b) of the License Agreement, as amended herein, or by agreement with third parties, Baxter and Cerus is each free to engage, in its sole discretion, in any commercial or non-commercial activity in connection with inactivation of pathogens or leukocytes in blood, blood components, blood component derivatives, or other materials; provided that Baxter may not manufacture, distribute or sell pathogen inactivation systems using S-59 or S-303 compounds anywhere in the world during the term of the License Agreement.

25. LICENSE OF RIGHTS TO BAXTER TO SUPPORT BIO ONE SUBLICENSES.

a. Subject to the terms and conditions of this Agreement, Cerus hereby grants to Baxter, solely in the BioOne Platelet Field of Use, (i) an exclusive (even as to Cerus) license solely to continue the sublicense that was granted to BioOne Corporation ("BioOne") pursuant to that certain License Agreement, dated as of June 28, 2004, between Cerus, Baxter and BioOne (the "BioOne Platelet Agreement") to make, have made, assemble, use, sell, offer for sale, distribute, import and export the BioOne Platelet Products in the BioOne Platelet Territory under the Cerus Platelet Licensed Patents and Cerus Platelet Licensed Know-How; and (ii) to continue the nonexclusive sublicense that was granted to BioOne pursuant to the BioOne Platelet Agreement to use, reproduce, distribute copies of, and to modify and create derivative works of the Cerus Platelet Licensed Materials within the BioOne Platelet Territory. The foregoing license does not include the right or license to make or have made amotosalen ("S-59").

b. As used in Section 25(a), the terms, "BioOne Platelet Field of Use", "BioOne Platelet Products" and "BioOne Platelet Territory" mean, respectively, the "Field of Use", "Products" and "Territory", as such terms are defined in the BioOne Platelet Agreement. As used in Section 25(a), the terms "Cerus Platelet Licensed Patents", "Cerus Platelet Licensed Know-How" and "Cerus Platelet Licensed Materials" mean, respectively, the "Licensed Patents", "Licensed Know-How" and "Licensed Materials", as such terms are defined in the BioOne Platelet Agreement; *limited, however,* to such Licensed Patents, Licensed Know-How and Licensed Materials as are owned by Cerus.

c. Subject to the terms and conditions of this Agreement, Cerus hereby grants to Baxter, solely in the BioOne Plasma Field of Use, (i) an exclusive (even as to Cerus) license solely to continue the sublicense that was granted to BioOne Corporation ("BioOne") pursuant to that certain License Agreement, dated as of May 27, 2005, between Cerus, Baxter and BioOne (the "BioOne Plasma Agreement") to make, have made, assemble, use, sell, offer for sale, distribute, import and export the BioOne Plasma Products in the BioOne Plasma Territory under the Cerus Plasma Licensed Patents and Cerus Plasma Licensed Know-How; and (ii) to continue the nonexclusive sublicense that was granted to BioOne pursuant to the BioOne Plasma Agreement to use, reproduce, distribute copies of, and to modify and create derivative works of the Cerus Plasma Licensed Materials within the BioOne Plasma Territory. The foregoing license does not include the right or license to make or have made amotosalen ("S-59").

d. As used in Section 25(a), the terms, "BioOne Plasma Field of Use", "BioOne Plasma Products" and "BioOne Plasma Territory" mean, respectively, the "Field of Use", "Products" and "Territory", as such terms are defined in the BioOne Plasma Agreement. As used in Section 25(a), the terms "Cerus Plasma Licensed Patents", "Cerus Plasma Licensed Know-How" and "Cerus Plasma Licensed Materials" mean, respectively, the "Licensed Patents", "Licensed Know-How" and "Licensed Materials", as such terms are defined in the BioOne Plasma Agreement; *limited, however,* to such Licensed Patents, Licensed Know-How and Licensed Materials as are owned by Cerus.

e. CERUS MAKES NO WARRANTIES WITH RESPECT TO THE ABOVE LICENSES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR NON-INFRINGEMENT.

f. Baxter will not take any action to terminate the BioOne Platelet Agreement or BioOne Plasma Agreement, nor to narrow the scope BioOne' licenses thereunder, without the prior written consent of Cerus.

g. Baxter shall use good faith efforts to enforce the obligations and other provisions of BioOne Platelet Agreement and BioOne Plasma Agreement that protect the rights and interests of Cerus under this Agreement and such agreements.

h. The license granted in Section 25(a) shall terminate in the event of termination of the BioOne Platelet Agreement, and shall be narrowed in scope to the extent there is a narrowing in the scope of the sublicense granted under the BioOne Platelet Agreement. The license granted in Section 25(c) shall terminate in the event of termination of the BioOne Plasma Agreement, and shall be narrowed in scope to the extent there is a narrowing in the scope of the sublicense granted under the BioOne Plasma Agreement.

i. The licenses set forth in Sections 25(a) and 25(c) above shall be royalty-free to Baxter, it being understood that Cerus and Baxter shall each be entitled to

receive directly from BioOne the payments that are provided for in the BioOne Platelet Agreement and BioOne Plasma Agreement.

26. MISCELLANEOUS.

a. Governing Law . This Agreement shall be governed by and construed in accordance with the internal laws of the State of **[*]** .

b. Assignment and Delegation .

(i) *No Assignments Except as Permitted.* No Party may assign any of its rights under this Agreement other than assignments to a Permitted Assignee, except with the prior written consent of the other Party. That Party shall not unreasonably withhold its consent. "Permitted Assignees" include an Affiliate of the assigning Party and one or more transferees to whom the assigning Party transfers substantially all of the products, business and services to which this Agreement relates; provided that the February 2005 Agreements and this Agreement shall be assigned to only one assignee and such assignee shall assume all obligations of the assigning party under this Agreement and the February 2005 Agreements and have the capability to perform such obligations. All other assignments of rights are prohibited under this subsection, whether they are voluntary or involuntary, by merger, consolidation, dissolution, operation of law, or any other manner. For purposes of this Section, (i) a "change of control" is deemed an assignment of rights; and (ii) "merger" refers to any merger in which a Party participates, regardless of whether it is the surviving or disappearing corporation. Furthermore, in the event that a third party purchases or otherwise acquires any part of Baxter's business, or in the event of any assignment to a Permitted Assignee, nothing in this Agreement or any agreement between Baxter and Cerus shall be construed or interpreted as granting to Cerus any rights to any intellectual property of such third party that was acquired or developed outside of the collaboration between Baxter and Cerus prior to such event, including without limitation, patents, know-how, trade secrets, copyrights, software, specifications, designs, regulatory data and source code. Paragraph 10.2(a) of the 2005 License Agreement is hereby amended to read as set forth above.

(ii) *No Delegations.* No Party may delegate any performance under this Agreement.

(iii) *Ramifications of Purported Assignment or Delegation.* Any purported assignment of rights or delegation of performance in violation of this Section is void.

c. Successors and Assigns . This Agreement inures to the benefit of, and is binding upon, the successors and assigns of the Parties hereto.

d. Entire Agreement; Amendments . This Agreement, the February 2005 Agreements and the Assignment of Marks contain the entire understanding of the Parties with regard to the subject matter contained herein and thereon, and supersede all

prior agreements or understandings between Cerus and Baxter with respect to the subject matter of this Agreement, the February 2005 Agreements and the Assignment of Marks. This Agreement will not be amended, modified or supplemented except by a written instrument signed by an authorized representative of each of the Parties.

e. Force Majeure . Neither Party will be deemed in default to the extent delayed or prevented from performing its obligations under this Agreement or the February 2005 Agreements, due to (i) an act of God, fire, flood, explosion, civil disorder, riot, war or terrorist attack, (ii) unforeseeable shortages of utilities, equipment, materials or facilities, delays in transportation, breakdown or accident, in each case that is beyond such Party's control, (iii) unforeseeable circumstances beyond such party's control arising from strike, lockout or other similar labor trouble, or (iv) other unforeseeable cause beyond its control (a "Force Majeure Event"); provided that it shall resume full performance of this Agreement as soon as practicable following the conclusion of the Force Majeure Event. A cause shall not be considered beyond a Party's control to the extent it could have been avoided or mitigated through prudent business practices and due care.

f. Interpretation; No Strict Construction . Article titles and headings to Sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement. The language used in this Agreement shall be deemed to be the language chosen by the Parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any Party hereto.

g. Partial Invalidity . If any provision of this Agreement, or the application thereof, is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the provisions of this Agreement will in no way be effected, impaired or invalidated, and to the extent permitted by applicable law, any such provision will be restricted in applicability or reformed to the minimum extent required for such provision to be enforceable.

h. No Third Party Beneficiary . This Agreement will not confer any rights or remedies on any person other than the Parties hereto and their respective successors and permitted assigns.

i. Counterparts . This Agreement may be executed in one or more counterparts (and by facsimile), all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the Parties and delivered to the other parties.

j. Notices . Wherever under this Agreement one Party is required or permitted to give written notice to the other, such notice will be deemed given if made in accordance with the terms of the License Agreement.

k. Nonwaiver . No alleged waiver, modification or amendment to this Agreement shall be effective against either Party hereto, unless in writing, signed by the Party against which such waiver, modification or amendment is asserted, and referring specifically to the provision hereof alleged to be waived, modified or amended. The failure or delay of either Party to insist upon the other Party's strict performance of the provisions in this Agreement or to exercise in any respect any right, power, privilege, or remedy provided for under this Agreement shall not operate as a waiver or relinquishment thereof, nor shall any single or partial exercise of any right, power, privilege or remedy preclude other or further exercise thereof, or the exercise of any other right, power, privilege, or remedy; provided, however, that the obligations and duties of either Party with respect to the performance of any term or condition in this Agreement shall continue in full force and effect.

l. Alternative Dispute Resolution . Any disputes arising under this Agreement shall be resolved as follows: Cerus and Baxter will attempt to settle any claim or controversy through good faith negotiations and in the spirit of mutual cooperation. Any issues that cannot be resolved will be referred to a senior management representative from each of the Parties who has the authority to resolve the dispute. In the event such senior management representatives cannot resolve the dispute, the dispute shall be submitted to binding arbitration for resolution. Any such proceedings shall be conducted at the place of the principal office of the respondent in accordance with the Commercial Arbitration Rules of the American Arbitration Association ("AAA"). Any such dispute or controversy shall be arbitrated before a single arbitrator selected in accordance with the rules of the AAA. The arbitrator's decision shall be final and binding upon the parties. The parties shall be entitled to full discovery in any such arbitration. Each party shall bear one half of the cost of such arbitration, unless the arbitrator otherwise allocates such costs. Judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Nothing in this Section will prevent either Party from resorting to judicial process if injunctive relief from a court is necessary to prevent serious and irreparable injury to one Party or to others.

m. Joint and Several Liability. BHSA and BHC's obligations and liability under this Agreement shall be joint and several.

n. Availability of Injunction. Baxter and Cerus agree that any breach, or threatened breach, of this Agreement by one Party could cause irreparable damage to the other Party. The Parties agree that, in the event of such breach, or threatened breach, the Parties shall have, in addition to any and all remedies of law, the right to an injunction, specific performance as well as all other equitable relief to prevent the violation of any obligations hereunder without the necessity of any proof of actual damages or the posting of a bond or other security. The Parties further agree that any action pursuant to this Section can and shall be brought in the state or federal courts located in Chicago, Illinois or San Francisco, California. The Parties hereby consent to the jurisdiction of such state or federal courts over such disputes and hereby waive and agree not to raise any and all defenses to the exercise of jurisdiction by such state or federal courts, including without limitation, personal jurisdiction, improper venue and forum non conveniens.

[Signature Page to Follow]

IN WITNESS WHEREOF, the Parties have duly executed this Agreement as of the date first set forth above.

BAXTER HEALTHCARE S.A

By: /s/ N. Narbel
Name: N. Narbel
Title: Corporate Counsel

By: /s/ R. Binggell
Name: R. Binggell
Title: Tax Counsel

BAXTER HEALTHCARE CORPORATION

By: /s/ Susan Lichtenstein
Name: Susan Lichtenstein
Title: Corporate Vice President and
General Counsel

CERUS CORPORATION

By: /s/ Claes Glassell
Name: Claes Glassel
Title: President and CEO

[*] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY BRACKETS, HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24B-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

Exhibit A: Intercept Illuminator UVA Plasma Software Development

ACTIVITY	TARGET DATE
Resolution of Priority 1 and Priority 2 Software Change Requests (SCRs) identified in Clearquest Database as of 10/05 and which relate to [*] Issue Date: May 11, 2004 • Priority 1 and 2 SCRs include Plasma specific as well as platform issues	[*]
• Completion of Verification & Validation with the above software changes	[*]
• Technical File Update/Self Declaration	[*]

NOT IN SCOPE

- Priority 3, 4, and 5 Software Change Requests

Exhibit B: Intercept Illuminator Serial Number

INTERCEPT ILLUMINATORS – SERIAL NUMBER

[*] [*] [*] [*]

[*] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY BRACKETS, HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24B-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

Exhibit C: Estimated Cost to Upgrade/Re-label [*] instruments to [*]. Cerus to pay [*] incurred by Baxter.

	Instruments in Inventory [*]	Instruments in Field [*]
Cost of Materials (@100 ea)	**[*]**	**[*]**
Tray+Cover assembly		
Gearbox assembly		
Labeling		
Relabeing/Upgrade Labor/OH (est)	[*]	[*]
Transportation cost (estimated)	**[*]**	**[*]**
TOTAL ESTIMATED COST/UNIT:	**[*]**	**[*]**
No. of instruments	**[*]**	**[*]**

NOTES:

1. Cost of **[*]** in field and providing **[*]** is NOT included and is at Cerus expense.
2. Label specs will need to be issued/approved by Cerus — re-issuance of label copy, R&I activities will be supported on per hour basis ($ **[*]**)
3. Materials estimates obtained in **[*]** and may change at time of actual order.
4. Labor/OH based on strategy to upgrade/re-labeling in **[*]** . Changes to location or function performing work will result in change in labor/OH. Strategy details pending finalization.
5. Upgrade/relabeling activities to be performed per the EU Technical Services organization.

Exhibit D: Supplemental Transition Services

Positions for which Cerus may contract with Baxter for supplemental transition services in **[*]** at a full or part-time basis at **$[*]** per hour:

1.) **[*]**

Positions for which Cerus may contract with Baxter for supplemental transition services in **[*]** at a full or part-time basis at $ **[*]** per hour:

1.) **[*]**

Exhibit E: Regulatory Responsibilities (for section 8b)

1. Adverse Event Reporting

While Baxter is the holder of the CE Marking registrations or self-declarations for the Platelet System, Baxter shall have the responsibility for reporting to Governmental Authorities as required by Applicable Laws any adverse device events, malfunctions, incidents, near incidents and any other reportable event concerning the Platelet System. Cerus shall cooperate with Baxter in promptly providing to Baxter all applicable information received by Cerus and shall provide such assistance and information as Baxter reasonably requests to fulfill its reporting obligations.

2. Products Complaints

Each Party shall cooperate fully with the other Party in dealing with customer complaints concerning the Platelet System and shall take reasonable action to promptly resolve and follow up with regard to such complaints. Without limiting the generality of the foregoing, Baxter shall: (1) keep and maintain a record of, and provide Cerus a copy of, all customer complaints received by Baxter relating to the Platelet System that are required to be maintained by Baxter pursuant to European regulatory requirements; (2) notify Cerus within **[*]** of any complaints received by Baxter relating to the Platelet System, (3) notify Cerus in writing within **[*]** upon receipt of any information that indicates a material safety concern with respect to the Plasma System that could have a significant effect on the safety or efficacy of the Platelet System; and (4) otherwise cooperatively undertake investigations, provide information and analysis, and conduct such follow-up activities as reasonably requested by Cerus, at Cerus' expense except for expenses incident to Baxter's obligations as a manufacturer, independent of its status as holder of CE Mark registration/application. Cerus shall: (1) notify Baxter in writing within **[*]** upon receipt of any information relating to the Platelet System that indicates a material safety concern with respect to the Platelet System that could have a significant effect on the safety or efficacy of the Platelet System; (2) notify Baxter within **[*]** of any complaints received by Cerus relating to the Platelet System; and (3) otherwise cooperatively undertake investigations, provide information and analysis, and conduct such follow-up activities as reasonably requested by Baxter.

3. Product Removals, Corrections and Recalls

If either Party in good faith determines that a removal, correction or other field action involving the Platelet System or its labeling is

warranted, such Party shall immediately notify the other Party in writing and shall advise such other Party of the reasons underlying its determination that a removal, correction or other field action is warranted. The Parties shall consult with each other as to any action to be taken in regard to such removal, correction or other field action. If, after consultations, Baxter in good faith believes that such a removal, correction or field action should be undertaken with respect to Platelet System or its labeling, the Parties shall cooperate in carrying out the same.

If any removal, correction or other field action is taken with respect to the Platelet System or its labeling, Baxter shall submit any necessary reports to the applicable Regulatory Authority, and shall be responsible for drafting any notifications of such action. Baxter shall, within a reasonable time thereafter, provide Cerus with a copy of all such reports as filed. Baxter shall maintain records of all corrections, removals or other field actions as required by applicable laws, and shall promptly provide Cerus with a copy of such records."

4. Transfer of Regulatory Responsibilities

Baxter's provision of the services described in this Exhibit shall continue until Cerus holds the CE Marking registrations for the Pathogen Inactivation Disposables for the Platelet System and has made the self-declaration for the Illuminator. Cerus shall pay for all services provided under this section at the hourly rate of $ **[*]** .

Exhibit F: 2006 Intercept Plasma Program Deliverables

#	Activity	Target Completion
	[*]	

Exhibit F-1

[*] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY BRACKETS, HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24B-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

#	Activity	Target Completion
	[*]	

[*].

- **[*]**

- **[*]**

Exhibit F-3

[*] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT , MARKED BY BRACKETS , HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24B-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED .

Exhibit G: INTERCEPT Platelet Disposable Deliverables

ACTIVITY	TARGET DATE
Complete In-process **[*]** documentation **[*]**	
Complete In-process projects:	
• **[*]**	**[*]**
• **[*]**	**[*]**
• **[*]**	**[*]**
• **[*]**	**[*]**
• **[*]**	**[*]**
New Projects/Activities to be evaluated:	
• [*]	**[*]**
• [*]	**[*]**
• [*]	**[*]**
• [*]	**[*]**
Ongoing compliance support	**[*]**

NOT IN SCOPE:

- **[*]**
- Qualification of **[*]** for Platelets
- Product line expansions
- **[*]** for Intercept
- **[*]** (Clin Ed, Clinical, R&D)
- Hemovigilance support
- Phase IV studies

Exhibit H: Documents and Marketing Materials

[*]

Exhibit H-1

[*] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT , MARKED BY BRACKETS , HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24B-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED .

Exhibit I: InterSol Product Configuration/Code

Code	Description
[*]	INTERCEPT Combination Kit for **[*]**
[*]	INTERCEPT Combination Kit for **[*]**
[*]	INTERCEPT Preparation Set for **[*]**
[*]	INTERCEPT Pooling Set for **[*]**
[*]	INTERCEPT train prep set for **[*]**
[*]	**[*]** InterSol for **[*]**
[*]	**[*][*]**
[*]	**[*] [*]**

(a) **[*]**

Exhibit I

[*] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT , MARKED BY BRACKETS , HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24B-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED .

Exhibit J: EFFECT OF COMMERCIALIZATION TRANSITION AGREEMENT ON FEBRUARY 2005 RESTRUCTURING AGREEMENT

Restructuring Agreement

Section 1 CONDITIONS. SUBSEQUENT PAYMENT. Has been fully performed – new agreement has no effect.

Section 2.1 – 2.5 {EU COMMERCIALIZATION RIGHTS PROVISIONS }. Superseded.

Section 2.6 Escrow Account

Section 2.6(a) Has been fully performed. Definition of "Escrow Account" is referred to in new agreement.

Section 2.6(b) Superseded, except last sentence re approval of plasma development expenses is still applicable. Governance Committee is no longer in effect.

Section 2.7 – 2.11 {VARIOUS PROVISIONS }. Superseded.

Section 2.12 BIO ONE TERRITORY COMMERCIALIZATION RIGHTS . Remains in effect.

Section 3 DEVELOPMENT . Superseded

Section 4 RELINQUISHMENT OF RIGHTS . All of Section 4 remains in effect, except Section 4.3, which is terminated. The new agreement extends the relinquishment of rights in Section 4, but does not supersede Section 4.

Section 5 LICENSE AGREEMENT; TRADEMARK LICENSE . Remains in effect, with the understanding that the Assignment of Marks is replacing the Trademark License Agreement.

Section 6.1 PLATELETS AND PLASMA IN THE COUNTRIES WHERE BAXTER RETAINS COMMERCIALIZATION RIGHTS . Superseded.

Section 6.2 MANUFACTURING AND SUPPLY AGREEMENT . Remains in effect.

Section 6.3 OBLIGATIONS TO BIO ONE . Remains in effect.

Section 7 TRANSITION SERVICES . Remains in effect.

Section 8 CERUS BUY-OUT OF COMMERCIALIZATION RIGHTS . Superseded.

[*] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT , MARKED BY BRACKETS , HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24B-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED .

Section 9 REVENUE SHARING

Sections 9.1 – 9.4 {V ARIOUS P ROVISIONS } . Superseded. Note: Baxter would still pay the revenue sharing amounts to Cerus for the time in 2006 prior to the Effective Date, so these clauses stay in effect up to that time.

Section 9.5 U NDER B IO O NE A GREEMENTS . Remains in effect.

Section 9.6 A RISING FROM T HIRD -P ARTY A GREEMENT . Superseded.

Sections 9.7 – 9.9 {I NTERSOL P ROVISIONS }. Remain, as modified by the new agreement.

Section 10 MUTUAL RELEASES . Remains in effect, except for the first sentence of Section 10.3 relating to survival of the Platelet Agreement and RBC FFP Agreement.

Section 11 EFFECT ON PLATELET AGREEMENT AND RBC/FFP AGREEMENT .

Section 11.1 . Superseded.

Section 11.2(a) . Superseded. The Management Board/Governance Committee is no longer operative under the new agreement.

Section 11.2(b) . Superseded. Baxter retains CAD production responsibility under the Manufacturing Agreement.

Section 11.2(c) . Superseded.

Section 12 TERMINATION . Superseded.

Section 13 REPORTS AND PAYMENTS . Remains in effect.

Section 14 INDEMNIFICATION . Remains in effect.

Section 15 MISCELLANEOUS . Remains in effect.

Exhibit 31.1

CERTIFICATION

I, Claes Glassell, Chief Executive Officer of Cerus Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cerus Corporation;

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 officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

5. The registrant's other certifying officers 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 function):

   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: May 2, 2006

/s/ Claes Glassell
Claes Glassell
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, William J. Dawson, Chief Financial Officer of Cerus Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cerus Corporation;

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 officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

5. The registrant's other certifying officers 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 function):

   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: May 2, 2006

/s/ William J. Dawson
William J. Dawson
Chief Financial Officer

Exhibit 32.1

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Claes Glassell, the Chief Executive Officer of Cerus Corporation (the "Company") and William J. Dawson, the Chief Financial Officer of the Company, hereby certify that, to the best of their knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended March 31, 2006, and to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of section 13(a) or section 15(d) of the Exchange Act, and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 2nd day of May, 2006.

/s/ Claes Glassell
Claes Glassell
Chief Executive Officer

/s/ William J. Dawson
William J. Dawson
Chief Financial Officer