FORM 10-Q

CEPHEID - CPHD

Filed: May 10, 2007 (period: March 31, 2007)

Quarterly report which provides a continuing view of a company's financial position

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Source: CEPHEID, 10-Q, May 10, 2007

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, 2007

OR

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

For the transition period from _____ to _____

Commission file number 000-30755

CEPHEID

(Exact Name of Registrant as Specified in its Charter)

California	**77-0441625**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
904 Caribbean Drive, Sunnyvale, California	**94089-1189**
(Address of Principal Executive Office)	(Zip Code)

(408) 541-4191
(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.

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 Exchange Act).

☐ Yes ☑ No

As of April 30, 2007 there were 55,092,785 shares of the registrant's common stock outstanding.

REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2007

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CEPHEID
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	March 31, 2007 (unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,884	$ 17,186
Marketable securities	45,750	77,750
Accounts receivable, net	16,644	15,246
Inventory	12,951	10,240
Prepaid expenses and other current assets	2,989	1,390
Total current assets	86,218	121,812
Property and equipment, net	15,184	14,097
Restricted cash	661	661
Other non-current assets	378	666
Intangible assets, net	45,054	30,425
Goodwill	12,854	—
Total assets	$ 160,349	$ 167,661
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,132	$ 8,977
Accrued compensation	3,413	3,319
Accrued royalties	4,807	3,516
Accrued collaboration profit sharing	2,000	3,497
Accrued other liabilities	4,581	4,107
Accrued expense for patent-related matter	—	3,350
Current portion of deferred revenue	4,923	3,913
Current portion of license fees payable	—	447
Current portion of equipment financing	166	313
Current portion of note payable	49	11
Total current liabilities	28,071	31,450
Long-term portion of deferred revenue	2,262	2,663
Long-term portion of equipment financing	3	3
Long-term portion of note payable	—	41
Deferred rent	801	798
Total liabilities	31,137	34,955
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value; 100,000,000 shares authorized, 55,076,341 and 54,950,284 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively	251,865	251,132
Additional paid-in capital	17,043	15,065
Accumulated other comprehensive loss	(57)	(5)
Accumulated deficit	(139,639)	(133,486)
Total shareholders' equity	129,212	132,706
Total liabilities and shareholders' equity	$ 160,349	$ 167,661

See accompanying notes.

CEPHEID

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

	Three Months Ended March 31,	
	2007	2006
Revenues:		
Instrument sales	$ 6,837	$ 4,538
Reagent and disposable sales	15,230	14,734
Total product sales	22,067	19,272
Contract revenues	1,890	611
Grant and government sponsored research revenue	1,587	278
Total revenues	25,544	20,161
Costs and operating expenses:		
Cost of product sales	13,877	11,393
Collaboration profit sharing	3,497	3,811
Research and development	6,922	5,829
Selling, general and administrative	8,428	6,146
Total costs and operating expenses	32,724	27,179
Loss from operations	(7,180)	(7,018)
Other income (expense):		
Interest income	912	512
Interest expense	(10)	(219)
Other income	125	53
Other income, net	1,027	346
Net loss	$ (6,153)	$ (6,672)
Basic and diluted net loss per share	$ (0.11)	$ (0.15)
Shares used in computing basic and diluted net loss per share	55,012	44,946

See accompanying notes.

CEPHEID
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2007	2006
Cash flows from operating activities:		
Net loss	$ (6,153)	$ (6,672)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,440	1,100
Amortization of intangible assets	1,036	658
Amortization of imputed interest	—	85
Amortization of prepaid compensation expense	63	—
Stock-based compensation related to employees and non-employees	2,001	1,723
Deferred rent	3	47
Unrealized loss on investments	—	(24)
Changes in operating assets and liabilities:		
Accounts receivable	208	2,824
Inventory	(944)	544
Other non-current assets	225	—
Prepaid expenses and other current assets	(1,280)	(1,648)
Accounts payable and other current liabilities	(1,224)	1,916
Accrued compensation	(1,193)	(815)
Accrued expense for patent-related matter	(3,350)	—
Deferred revenue	346	(630)
Net cash used in operating activities	(8,822)	(892)
Cash flows from investing activities:		
Capital expenditures	(1,190)	(1,924)
Payments for technology licenses	(4,462)	(1,101)
Cost of Sangtec acquisition, net of cash acquired	(27,359)	—
Proceeds from maturities of marketable securities	32,000	3,750
Purchases of marketable securities	—	(31,650)
Net cash used in investing activities	(1,011)	(30,925)
Cash flows from financing activities:		
Net proceeds from the issuance of common shares, exercise of stock options, awards and ESPP	733	82,569
Principal payment of line of credit	—	(4,000)
Principal payments under equipment financing	(147)	(3,103)
Payment of note payable	(3)	—
Net cash provided by financing activities	583	75,466
Effect of exchange rate change on cash	(52)	(13)
Net increase (decrease) in cash and cash equivalents	(9,302)	43,636
Cash and cash equivalents at beginning of period	17,186	16,072
Cash and cash equivalents at end of period	$ 7,884	$ 59,708

See accompanying notes.

CEPHEID

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Cepheid (the "Company") was incorporated in the State of California on March 4, 1996. The Company is a molecular diagnostics company that develops, manufactures, and markets fully-integrated systems for genetic analysis in the Clinical Molecular Diagnostic, Industrial and Bio-threat markets. The Company's systems enable rapid, sophisticated genetic testing for organisms and genetic-based diseases by automating otherwise complex manual laboratory procedures.

The condensed consolidated balance sheet at March 31, 2007, the condensed consolidated statements of operations for the three months ended March 31, 2007 and 2006, and the condensed consolidated statements of cash flows for the three months ended March, 31, 2007 and 2006 are unaudited. In the opinion of management, these condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) that are necessary for a fair presentation of the results for and as of the periods shown. The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. However, certain information or footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The results of operations for such periods are not necessarily indicative of the results expected for the remainder of 2007 or for any future period. The condensed consolidated balance sheet as of December 31, 2006 is derived from audited financial statements as of that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 filed with the SEC.

Principles of Consolidation

The condensed consolidated financial statements of Cepheid include the accounts of the Company and its wholly-owned subsidiaries after elimination of intercompany transactions and balances. In August 2006, our French subsidiary acquired Actigenics SA ("Actigenics"). In February 2007, the Company acquired Sangtec Molecular Diagnostics AB ("Sangtec"). The condensed consolidated financial statements include the results of operations of Actigenics and Sangtec subsequent to their respective acquisition dates of August 8, 2006 and February 14, 2007. The functional currency of the French subsidiary is the Euro, and the functional currency of the Swedish subsidiary is the Swedish Krona; accordingly, all gains and losses arising from foreign currency transactions in currencies other than functional currency are included in the condensed consolidated statements of operations. Adjustments resulting from translating the financial statements of foreign subsidiaries into U.S. Dollars are reported as a separate component of accumulated other comprehensive loss in shareholders' equity.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Inventory

Inventory is stated at the lower of standard cost (which approximates actual cost) or market, with cost determined on the first-in-first-out method. Allocation of fixed production overheads to conversion costs is based on normal capacity of the production. Abnormal amounts of idle facility expense, freight, handling costs and spoilage are expensed as incurred and not included in overhead.

The components of inventories were as follows (in thousands):

	March 31, 2007	December 31, 2006
Raw Materials	$ 5,063	$ 4,910
Work in Process	4,328	2,587
Finished Goods	3,560	2,743
	$ 12,951	$ 10,240

Intangible Assets

Intangible assets related to licenses are recorded at cost, less accumulated amortization. Intangible assets related to technology acquired in acquisitions and other intangible assets are recorded at fair value at the date of acquisition, less accumulated amortization. Intangible assets are amortized over their estimated useful lives, ranging from 3 to 20 years, on a straight-line basis. The Company reviews its intangible assets for impairment under Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The Company conducts the impairment review when events or circumstances indicate the carrying value of a long-lived asset may be impaired, by estimating the future undiscounted cash flows to be derived from an asset to assess whether or not a potential impairment exists. If the carrying value exceeds the Company's estimate of future undiscounted cash flows, an impairment value is calculated as the excess of the carrying value of the asset over the Company's estimate of its fair market value. Events or circumstances which could trigger an impairment review include a significant adverse change in the business climate, an adverse action or assessment by a regulator, unanticipated competition, significant changes in the Company's use of acquired assets, the Company's overall business strategy, or significant negative industry or economic trends. There were no impairment charges recorded in any of the periods presented.

The recorded value and accumulated amortization of major classes of intangible assets at March 31, 2007 were as follows (in thousands):

	Recorded Value	Accumulated Amortization	Net Book Value
Licenses	$ 40,402	$ 7,568	$ 32,834
Technology acquired in acquisitions	10,613	198	10,415
Other	1,850	45	1,805
	$ 52,865	$ 7,811	$ 45,054

Included in licenses was $19.1 million in connection with a patent license agreement with F. Hoffman-La Roche, Ltd., effective July 1, 2004. The net book value of this license was $16.4 million and $16.7 million at March 31, 2007 and December 31, 2006, respectively.

Amortization expense of intangible assets was $1.0 million and $0.7 million for the three months ended March 31, 2007 and 2006, respectively. The expected future annual amortization expense of intangible assets recorded on our condensed consolidated balance sheet as of March 31, 2007 is as follows, assuming no impairment charges (in thousands):

For the Years Ending December 31,	Amortization Expense
2007 (remaining nine months)	$ 3,699
2008	4,932
2009	4,923
2010	4,859
2011	4,857
Thereafter	21,784
Total expected future annual amortization	$ 45,054

Warranty Provision

The Company warrants its instrument products to be free from defects for a period of 12 to 15 months from the date of sale and its disposable products to be free from defects. Accordingly, a provision for the estimated cost of warranty repair or replacement is recorded at the time revenue is recognized. The Company's warranty provision is established using management's estimates of future failure rates and of the future costs of repairing any instrument failures during the warranty period or replacing any disposable products with defects. The activities in the warranty provision for each three months ended March 31, 2007 and 2006 consisted of the following (in thousands):

	Three Months Ended March 31,	
	2007	2006
Balance at beginning of period	$ 256	$ 470
Costs incurred and charged against reserve	(41)	(352)
Provision for warranty	101	87
Balance at end of period	$ 316	$ 205

Revenue Recognition

The Company recognizes revenue from product sales and contract arrangements. From time to time, the Company enters into revenue arrangements with multiple deliverables. Multiple element revenue agreements entered into on or after July 1, 2003 are evaluated under Emerging Issues Task Force ("EITF") Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"), to determine whether the delivered item has value to the customer on a stand-alone basis and whether objective and reliable evidence of the fair value of the undelivered item exists. Deliverables in an arrangement that do not meet the separation criteria in EITF 00-21 must be treated as one unit of accounting for purposes of revenue recognition. Advance payments received in excess of amounts earned, such as funds received in advance of products to be delivered or services to be performed, are classified as deferred revenue until earned.

In accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition", the Company recognizes revenue from product sales when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed or determinable and collectibility is reasonably assured. No right of return exists for the Company's products except in the case of damaged goods. The Company has not experienced any significant returns of its products. Contract revenues include fees for technology licenses and research and development services, royalties under license and collaboration agreements. Contract revenue related to technology licenses is generally fully recognized only after the license period has commenced, the technology has been delivered and no further involvement of the Company is required. When the Company has continuing involvement related to a technology license, revenue is recognized over the license term. Royalties are typically based on licensees' net sales of products that utilize the Company's technology, and royalty revenues are recognized as earned in accordance with the contract terms when the royalties can be reliably measured and their collectibility is reasonably assured, such as upon the receipt of a royalty statement from the customer. Shipping and handling costs are included in cost of product sales.

Grant and government sponsored research revenue and contract revenue related to research and development services are recognized as the related services are performed based on the performance requirements of the relevant contract. Under such agreements, the Company is required to perform specific research and development activities and is compensated either based on the costs or costs plus a mark-up associated with each specific contract over the term of the agreement or when certain milestones are achieved.

Stock-Based Compensation

The Company follows the accounting provisions of SFAS No.123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"), for share-based awards granted to employees and directors, including employee stock option awards, restricted stock and employee stock purchases made under our Employee Stock Purchase Plan ("ESPP"), using the estimated grant date fair value method of accounting in accordance with SFAS No. 123(R). The Company recognizes the fair value of its stock option awards on a straight-line basis over the requisite service period of each award, which is generally four years. Stock-based compensation to non-employees is determined in accordance with SFAS No. 123(R) and EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods, or Services".

The stock-based compensation expense in the condensed consolidated statement of operations for the three months ended March 31, 2007 and 2006 was as follows (in thousands):

	Three Months Ended March 31,	
	2007	2006
Cost of product sales	$ 266	$ 174
Research and development	744	593
Selling, general and administrative	991	956
Total stock-based compensation expense	$ 2,001	$ 1,723

The impact of stock-based compensation expense on basic and diluted net loss per share was $0.04 for the three months ended March 31, 2007 and 2006. In addition, stock-based compensation cost of approximately $0.2 million was included in inventory as of March 31, 2007 and December 31, 2006.

The fair value of stock options granted to employees and shares purchased by employees under the ESPP for the three months ended March 31, 2007 and 2006 was estimated using the following assumptions:

	Three Month Ended March 31,	
	2007	2006
OPTION SHARES:		
Expected Term (in years)	5.00	5.00
Volatility	0.73	0.98
Expected Dividends	0.00%	0.00%
Risk Free Interest Rates	4.64%	4.50%
Estimated Forfeitures	14.30%	11.64%
Weighted Average Fair Value	$ 5.77	$ 7.10
ESPP SHARES:		
Expected Term (in years)	1.25	1.25
Volatility	0.48	0.50
Expected Dividends	0.00%	0.00%
Risk Free Interest Rates	5.05%	4.54%
Weighted Average Fair Value	$ 3.08	$ 3.94

Income Taxes

In June 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 clarifies the recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 had no impact on the Company’s condensed consolidated financial statements.

The Company is subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company has substantially concluded all U.S. federal income tax matters for years through December 31, 2002. Substantially all material state and local, and foreign income tax matters have been concluded for years through December 31, 2001.

The Company’s continuing practice is to recognize interest and/or penalties related to income tax matters as income tax expense. The Company had no accruals for interest or penalties at March 31, 2007 and December 31, 2006.

Net Loss per Share

Basic net loss per share has been calculated based on the weighted-average number of common shares outstanding during the period. Common stock equivalents consisting of stock options and awards have been excluded from the computation of diluted net loss per share, as their inclusion would be antidilutive for all periods presented, and were 7,560,552 and 6,385,066 at March 31, 2007 and 2006, respectively.

Comprehensive Loss

Comprehensive loss includes net loss as well as other comprehensive income or loss. Other comprehensive income or loss consists of foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. The following table presents the calculation of comprehensive loss, including components of other comprehensive loss (in thousands):

	Three Months Ended March 31,	
	2007	2006
Net loss	$ (6,153)	$ (6,672)
Other comprehensive loss:		
Foreign currency translation adjustments	52	(13)
Unrealized loss on available-for-sale securities	—	(24)
Comprehensive loss	$ (6,101)	$ (6,709)

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, rather, it applies under existing accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company will adopt SFAS 157 as required. The Company is currently evaluating the impact of SFAS 157 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158"), which amended several other FASB Statements. SFAS 158 requires recognition in the balance sheet of the funded status of defined benefit pension and other postretirement benefit plans, and the recognition in other comprehensive income of unrecognized gains or losses and prior service costs or credits arising during the period. Additionally, SFAS 158 requires the measurement date for plan assets and liabilities to coincide with the sponsor's year-end. The provisions of SFAS 158 are effective as of the end of the fiscal year ending after December 15, 2006. The only pension-related plan for the Company is that applicable to salaried employees of Sangtec. The Company is currently evaluating the impact of SFAS 158 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115" ("SFAS 159"). The fair value option established by SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective as of the beginning of fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS 159 on its consolidated financial statements.

2. Segment and Significant Concentrations

The Company and its wholly owned subsidiaries operate in only one business segment.

The Company currently sells its products through its direct sales force and through third-party distributors. For the quarter ended March 31, 2007 there was one direct customer that represented 53% of total product sales. For the quarter ended March 31, 2006, there was one direct customer that represented 63% of total product sales. The Company has distribution agreements with Fisher Scientific Company L.L.C. to market the Cepheid SmartCycler system in the U.S. and Canada. The Company also has several regional distribution arrangements throughout Europe, Japan, South Korea, China, Mexico and other parts of the world. The following table provides a breakdown of product sales by geographic region for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,	
	2007	2006
	(As a percent of total product sales)	
Product Sales Geographic information:		
North America	81%	90%
Europe	18%	7%
Japan and other	1%	3%
Total revenues	100%	100%

No single country outside of the United States represented more than 10% of the Company's total revenues, total net assets or total net property, plant and equipment in any period presented.

3. Patent License Agreement

On January 16, 2007, Cepheid entered into a sublicense agreement with bioMerieux S.A. ("bioMerieux"), pursuant to which bioMerieux granted Cepheid a non-exclusive, worldwide, irrevocable sublicense to certain patents that relate to the diagnosis of methicillin resistant staphylococcus aureus. The patents are owned by Kainos Laboratories Inc. and Professor Keiichi Hiramatsu and have been exclusively licensed to bioMerieux with the right for bioMerieux to sub-license.

Under the sublicense agreement, and subject to certain limitations set forth therein, Cepheid will be able to use the licensed rights to develop and sell products for use in connection with its GeneXpert and SmartCycler platforms. In exchange for such rights, Cepheid agreed to pay an initial license fee of 3.0 million euros (approximately $4.0 million) and quarterly royalties based on net product sales during the term of the sublicense agreement, which expires when the last of the patents licensed under the agreement expires. The license fee was paid in the first quarter of 2007 and is being amortized on a straight-line basis over the useful life of approximately 9 years, with the amortization recorded as part of the cost of product sales.

4. Collaboration Profit Sharing

Collaboration profit sharing represents the amount that we pay to Applied Biosystems Group under our collaboration agreement to develop reagents for use in the Biohazard Detection System developed for the United States Postal Service. Under the agreement, computed gross margin on anthrax cartridge sales are shared equally between the two parties. As of March 31, 2007 and December 31, 2006, the accrued profit sharing liability was $2.0 million and $3.5 million, respectively. Collaboration profit sharing expense was $3.5 million and $3.8 million for the three months ended March 31, 2007 and 2006, respectively. The total revenues and cost of sales related to these cartridge sales are included in the respective balances in the condensed consolidated statement of operations.

5. Collaboration Agreement

On January 16, 2007, the Company entered into a collaboration agreement with bioMerieux for the development, production and marketing of a line of sepsis and hospital acquired pneumonia ("HAP") products, based upon the Company's real-time polymerase chain reaction ("PCR") technologies. Both companies will jointly develop the products, with the initial development program relating to sepsis products for bacterial and fungal identification assays, as well a series of genetic markers for antibiotic resistance. Cepheid will exclusively manufacture these Cepheid products. bioMerieux will market and distribute these products on an exclusive worldwide basis. Each party will bear its own costs of joint development. Cepheid will sell the products to bioMerieux at an agreed upon price. The term of the collaboration agreement is 15 years following the latest date that a sepsis product or HAP product is successfully launched and may be terminated earlier under certain circumstances.

6. Legal Proceedings

A complaint filed on December 22, 2005, in the United States District Court for the District of Utah by Idaho Technology, Inc. ("Idaho Technology") and University of Utah Research Foundation was served on the Company in March 2006. The complaint alleged that the Company infringed certain patents licensed by the University of Utah Research Foundation to Idaho Technology.

On January 2, 2007, the Company entered into a Settlement and Cross-License Agreement (the "Settlement Agreement") with Idaho Technology regarding certain Company and Idaho Technology intellectual property (the "Intellectual Property"). The Settlement Agreement provides that the parties shall dismiss with prejudice litigation related to the Intellectual Property. In addition, the Settlement Agreement provides each of the parties with a non-exclusive, worldwide, fully paid, non-terminable, irrevocable license to certain of the other's patents for use in their respective lines of products and contains certain covenants by each of the parties not to sue the other. Pursuant to the Settlement Agreement, the Company made a payment of $3.35 million to Idaho Technology in January 2007. As of December 31, 2006, the settlement amount was accrued and recorded as an expense in the consolidated statement of operations. Although the Company believed it would not be held liable for infringement had the issue ultimately gone to litigation, it came to the conclusion to settle the litigation. The Company made the Settlement Agreement and payment to avoid incurring significant legal costs to defend its case. The Company's belief that it did not infringe Idaho Technology's patents was based on the Company's detailed legal analysis by outside counsel that the patents referenced in the litigation were either not being infringed and/or that the patents referenced were potentially invalid, due to prior art not specified or referenced in the patents. Due to the fact that the Company did not believe there to be any validity to the patent infringement case, it did not ascribe any value to future product sales and recorded the whole amount as fiscal 2006 expense.

7. Acquisition

On February 14, 2007, Cepheid completed the purchase of 100% of the outstanding stock of Sangtec, a company located in Bromma, Sweden, from Nycomed-owned Altana Technology Projects GmbH. Sangtec is a broad-based PCR molecular diagnostics company that develops and manufactures products for standardized nucleic acid testing of infectious diseases. The acquisition will allow Cepheid to provide a relatively complete line of products for potential use in managing infections of immuno-compromised patients, a research and development operation to develop and expand its clinical test products, and a reagent manufacturing base in Europe. Subsequent to the acquisition, Sangtec's name was changed to Cepheid AB.

The acquisition was accounted for as a purchase transaction in accordance with SFAS No. 141, "Business Combinations" and accordingly, the tangible and intangible assets acquired and liabilities assumed were recorded at their estimated fair value at the date of the acquisition. The aggregate purchase price of the acquisition was approximately $27.4 million, including $26.6 million cash (net of $0.6 million cash acquired) and $0.8 million direct acquisition costs. The following table summarizes the preliminary allocation of the purchase price based on the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands). Cepheid is in the process of obtaining third-party valuations of certain acquired intangible assets; thus, the allocation of the purchase price is subject to modification.

Current assets	$ 3,715
Property, plant and equipment	1,337
Intangible assets	11,650
Current liabilities	(2,197)
Goodwill	12,854
	$27,359

The acquired intangible assets consisted of the following:

	Fair Value (in thousands)	Weighted Average Useful Life (in years)
Existing technology	$ 9,800	9
Contract manufacturing agreement	1,600	5
Distributor relationships	200	9
Trademark	50	3
	$ 11,650	

The amortization expense related to the existing technology and contract manufacturing will be recorded as cost of product sales, and the amortization expense related to distributor relationships and trademark will be recorded as selling, general and administrative expense. Total amortization expense recorded for the three months ended March 31, 2007 was $0.2 million.

The following table provides pro forma financial information assuming the acquisition of Sangtec had occurred at the beginning of each period presented (in thousands, except per share data):

	Three Months Ended March 31,	
	2007	2006
Total revenues	$ 26,742	$ 22,717
Net loss	$ (6,829)	$ (6,634)
Basic and diluted net loss per share	$ (0.12)	$ (0.14)

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements that are based upon current expectations. These statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "intend", "potential" or "continue" or the negative of these terms or other comparable terminology. Forward-looking statements involve risks and uncertainties. Our actual results and the timing of events could differ materially from those anticipated in our forward-looking statements as a result of many factors, including, but not limited to, the following: the scope and timing of actual United States Postal Service ("USPS") funding of the Biohazard Detection System ("BDS"); the rate of environmental testing using the BDS conducted by the USPS, which will affect the amount of consumable products sold; unforeseen development and manufacturing problems; the need for additional licenses for new tests and other products and the terms of such licenses; lengthy sales cycles in certain markets; the performance and market acceptance of our new products; our ability to obtain regulatory approvals and introduce new products into the Clinical Molecular Diagnostic market; our ability to successfully sell products in the Clinical Molecular Diagnostic market; our reliance on distributors to market, sell and support our products; the occurrence of unforeseen expenditures, acquisitions or other transactions; our ability to integrate the businesses, technologies, operations and personnel of acquired companies; our success in increasing our direct sales; the impact of competitive products and pricing; our ability to manage geographically-dispersed operations; underlying market conditions worldwide and the other risks set forth under "Risk Factors" and elsewhere in this report, and we can not guarantee future results, levels of activity, performance or achievements. We assume no obligation to update any of the forward-looking statements after the date of this report or to conform these forward-looking statements to actual results.

OVERVIEW

We are a broad based molecular diagnostics company that develops, manufactures, and markets fully-integrated systems for testing in the Clinical Molecular Diagnostics, Industrial and Biothreat markets. Our systems enable rapid, sophisticated molecular testing for organisms and genetic-based diseases by automating otherwise complex manual laboratory procedures. Molecular testing involves a number of complicated and time-intensive steps, including sample preparation, DNA amplification and detection. Our easy-to-use systems integrate these steps and analyze complex biological samples in our proprietary test cartridges. We are currently the only company to have obtained Clinical Laboratory Improvement Amendments (CLIA) moderate complexity categorization for an amplified molecular test system and an associated specific infectious disease test on the market in the United States. Our efforts are currently focused on those applications where rapid molecular testing is particularly important, such as identifying infectious diseases and cancer in the Clinical Molecular Diagnostic market; food, agricultural and environmental testing in the Industrial market; and identifying bio-terrorism agents in the Biothreat market.

Our two principal system platforms are the SmartCycler and GeneXpert systems. The SmartCycler system integrates DNA amplification and detection to allow rapid analysis of a sample. The GeneXpert system integrates sample preparation in addition to DNA amplification and detection. The GeneXpert system is designed for a broad range of user types ranging from reference laboratories and hospital central laboratories to satellite testing locations, such as ER and ICU units within hospitals, and doctors' offices.

The GeneXpert system represents a paradigm shift in the automation of molecular analysis, producing accurate results in a timely manner with minimal risk of contamination. Our GeneXpert system can provide rapid results with superior test specificity and sensitivity over comparable systems on the market today that are integrated but have open architectures.

We currently have available a relatively broad menu of tests and reagents for use on our respective systems. Our reagents and tests are marketed along with our systems on a worldwide basis.

Sales for products within our specific markets are conducted through both direct sales and distribution channels worldwide. Clinical Molecular Diagnostic market sales in the United States are handled primarily on a direct basis, while sales in all markets for Europe and our markets in the rest of the world are handled almost exclusively on a distributor basis. Our marketing programs are managed on a direct basis.

On February 14, 2007, we completed the purchase of 100% of the outstanding stock of Sangtec Molecular Diagnostics AB ("Sangtec"), a company located in Bromma, Sweden, from Nycomed-owned Altana Technology Projects GmbH. Sangtec is a PCR molecular diagnostics company that develops and manufactures products for standardized nucleic acid testing of infectious diseases. The acquisition will allow us to provide a relatively complete line of products for potential use in managing infections of immuno-

compromised patients, a research and development operation to develop and expand its clinical test products, and a reagent manufacturing base in Europe. Subsequent to the acquisition, Sangtec's name was changed to Cepheid AB. The acquisition has been accounted for as a purchase transaction in accordance with SFAS No. 141, "Business Combinations"; accordingly, the results of Cepheid AB operations have been included in our consolidated results of operations from the date of acquisition. The purchase price of the acquisition was approximately $27.4 million, including $26.6 million cash (net of cash acquired) and $0.8 million direct acquisition costs.

In January 2007, we entered into a sublicense agreement with bioMerieux S.A. ("bioMerieux"), pursuant to which bioMerieux granted us a non-exclusive, worldwide, irrevocable sublicense to certain patents that relate to the diagnosis of methicillin resistant staphylococcus aureus ("MRSA"). The patents are owned by Kainos Laboratories Inc. and Professor Keiichi Hiramatsu and have been exclusively licensed to bioMerieux with the right for bioMerieux to sub-license. Under the sublicense agreement, and subject to certain limitations set forth therein, we will be able to use the licensed rights to develop and sell products for use in connection with its GeneXpert and SmartCycler platforms. In exchange for such rights, we agreed to pay an initial license fee of 3.0 million euros (approximately $4.0 million) and quarterly royalties based on net product sales during the term of the sublicense agreement, which expires when the last of the patents licensed under the agreement expires. The license fee was paid in the first quarter of 2007 and is being amortized on a straight-line basis over the useful life of 9 years, with the amortization recorded as part of the cost of product sales.

In January 2007, we also entered into a collaboration agreement with bioMerieux for the development, production and marketing of a line of sepsis and hospital acquired pneumonia ("HAP") products, based upon our real-time polymerase chain reaction ("PCR") technologies. Both companies will jointly develop the products, with the initial development program relating to sepsis products for bacterial and fungal identification assays, as well a series of genetic markers for antibiotic resistance. We will exclusively manufacture these Cepheid products. bioMerieux will market and distribute these products on an exclusive worldwide basis. Each party will bear its own costs of joint development. We will sell the products to bioMerieux at an agreed upon price. The term of the collaboration agreement is 15 years following the latest date that a sepsis product or HAP product is successfully launched and may be terminated earlier under certain circumstances.

In March 2007, we received clearance from the U.S. Food & Drug Administration ("FDA") to market our GeneXpert enterovirus ("EV") test, which runs on the GeneXpert platform, for the presumptive qualitative detection of EV RNA in cerebrospinal fluid ("CSF") as an aid in the laboratory diagnosis of EV infection in patients with a clinical suspicion of meningitis. The Xpert EV test, designed to detect EV RNA in CSF by reverse-transcription real-time polymerase chain reaction ("RT-PCR"), is the first test of its type to receive FDA clearance. GeneXpert EV is the first and only RT-PCR test that delivers EV results in less than two and a half hours compared to up to three days for standard culture testing. This was our third clinical in vitro diagnostic test following the FDA 510(k) clearances of the Xpert Group B Streptococcus ("GBS") and Smart GBS tests in 2006.

In April 2007, we received clearance from the FDA to market our GeneXpert MRSA test, which runs on the GeneXpert platform, for the rapid detection of MRSA. GeneXpert MRSA results are delivered in just over one hour, identifying carriers of the potential pathogen and enabling healthcare organizations to promptly implement the proper infection control measures, leading to lower hospital acquired infection rates while improving patient care. This was our fourth clinical in vitro diagnostic test.

Sales Channels

We sell our products both directly and through other distribution channels. In the United States, we sell through our direct sales force in the Industrial and Clinical Molecular Diagnostic markets, as well as through non-exclusive distributors, Fisher Scientific Company L.L.C. and VWR International, in the Industrial market. In Europe, our products are sold primarily through distributors. In Japan and other parts of the world, we sell solely through distributors. Through our French subsidiary, Cepheid SA, distributors have been established in Europe, the Middle East, Western Asia and Africa. We expect to continue expanding our sales efforts into other territories throughout the world by adding distributors and entering into collaboration agreements.

Revenues

Currently, we derive our revenues primarily from the sales of our two instrument platforms and associated reagents and disposables in the Clinical Molecular Diagnostic, Industrial, and Biothreat markets, and to a lesser extent from contract and government sponsored research.

Research and Development

Since our inception, we have devoted significant resources to research and development, particularly in developing the technologies for our SmartCycler and GeneXpert platforms and, more recently, developing tests and ASRs for use on those platforms. Research and development expenses were approximately $23.9 million for the year ended December 31, 2006 and $6.9 million for the three months ended March 31, 2007. We expect that our research and development expenses in 2007 will increase in line with our

contract and collaborator revenues and as we complete clinical trials for our MRSA/MSSA (methicillin-susceptible staphylococcus aureus) and factor 2/factor 5 hemostasis tests and begin research on other tests.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND ASSUMPTIONS

We consider our accounting policies related to revenue recognition, impairment of intangible assets, inventory reserve, warranty accrual, and stock based compensation to be critical accounting policies. A number of significant estimates, assumptions, and judgments are inherent in our determination of when to recognize revenue, how to evaluate our intangible assets, and the calculation of our inventory reserve, warranty accrual, and stock-based compensation expense. These estimates, assumptions, and judgments include deciding whether the elements required to recognize revenue from a particular arrangement are present, estimating the fair value of an intangible asset, which represents the future undiscounted cash flows to be derived from the intangible asset, and estimating the amount of inventory obsolescence and warranty costs associated with shipped products and estimating the useful life and volatility of stock awards granted. We base our estimates and judgments on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates. Management believes that there have been no significant changes during the three months ended March 31, 2007 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operation in our 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission. For a description of those critical accounting policies, please refer to our 2006 Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Comparison of the Three Months Ended March 31, 2007 and 2006

Revenues

Product Sales

	Three Months Ended March 31,		
	2007	2006	% Change
	(Amounts in thousands)		
Revenues:			
Instrument sales	$ 6,837	$ 4,538	51%
Reagent and disposable sales	15,230	14,734	3%
Total product sales	22,067	19,272	15%
Contract revenues	1,890	611	209%
Grant and government sponsored research revenue	1,587	278	471%
Total Revenues	$ 25,544	$ 20,161	27%

We operate in three market areas: Clinical Molecular Diagnostic, Industrial and Biothreat markets. The following table illustrates product sales in the three market areas as a percentage of total product sales:

	Three Months Ended March 31,	
	2007	2006
	(As a % of total product sales)	
Product sales by market:		
Clinical Molecular Diagnostic	34%	19%
Biothreat	52%	63%
Industrial	14%	18%
Total Product Sales	100%	100%

Total product sales increased 15% to $22.1 million in the first quarter of 2007 from $19.3 million in the first quarter of 2006. The increase in product sales was primarily due to instrument sales in Europe and to a lesser extent from North America. Service revenue also increased with the substantial portion being from North America. The increase in product sales was the result of a change in product mix due to an increase in sales in the Clinical Molecular Diagnostic market partially offset by an anticipated decrease in GeneXpert test cartridge sales to Northrop Grumman/USPS in the Biothreat market. In the first quarter of 2007, product sales to Northrop Grumman/USPS represented 53% of our total product sales. In the first quarter of 2006, product sales to Northrop

Grumman/USPS represented 63% of our total product sales. The following table provides a breakdown of our product sales by geographic regions:

	Three Months Ended March 31,	
	2007	2006
	(As a % of total product sales)	
Product Sales by Geographic Regions:		
North America	81%	90%
Europe	18%	7%
Japan and other	1%	3%
Total Product Sales	100%	100%

No single country outside of the United States represented more than 10% of our total revenues in any period presented.

Contract Revenues

Contract revenues were $1.9 million in the first quarter of 2007 and $0.6 million in the first quarter 2006. Revenues for the first quarter 2007 were derived primarily from our collaboration agreement with Foundation for Innovative New Diagnostics ("FIND") and the amortization of license fees related to our collaboration agreement with bioMerieux, Inc. that are being recognized ratably over the term of the agreement. The increase in contract revenues in the first quarter of 2007 as compared to the same period in 2006 is due to the revenues from FIND, which began in the second quarter of 2006 and from our contract with Northrop Grumman Corporation, which began in the third quarter of 2006.

Grant and Government Sponsored Research Revenue

Grant and government sponsored research revenue increased to $1.6 million in the first quarter of 2007 from $0.3 million in the first quarter of 2006. The first quarter 2007 revenue was derived from programs with the Centers for Disease Control and Prevention and National Institutes of Health, revenues for which started in the first quarter of 2007. Such revenue increases were partially offset by decreased revenue from the National Cancer Institute program. Work on the National Cancer Institute program was substantially completed in the fourth quarter of 2006.

Costs and Operating Expenses

	Three Months Ended March 31,		
	2007	2006	% Change
	(Amounts in thousands)		
Costs and operating expenses:			
Cost of product sales	$ 13,807	$ 11,393	21%
Collaboration profit sharing	3,497	3,811	(8)%
Research and development	6,922	5,829	19%
Selling, general and administrative	8,428	6,146	37%
Total costs and operating expenses	$ 32,654	$ 27,179	20%

Cost of Product Sales

Cost of product sales consists of raw materials, direct labor and stock-based compensation expense, manufacturing overhead, facility costs and warranty costs. Cost of product sales also includes royalties on product sales and amortization of intangible assets related to technology licenses and intangibles acquired in the purchase of Sangtec. As a result of the increased product sales discussed above, cost of product sales increased 22% to $13.9 million in the first quarter of 2007 compared to $11.4 million in the first quarter of 2006. Our product gross margin percentage declined to 37% in the first quarter of 2007 from 41% in for the same period in 2006. The change in gross margin is primarily due to geographical mix and the amortization of intangible assets associated with the acquisition of Sangtec.

Collaboration Profit Sharing

Collaboration profit sharing represents the amount that we pay to Applied Biosystems Group under our collaboration agreement to develop reagents for use in the USPS BDS. Under the agreement, computed gross margin on anthrax cartridge sales are shared equally between the two parties. The collaboration profit sharing expense was $3.5 million and $3.8 million in the first quarter of 2007 and 2006, respectively. The decrease in collaboration profit sharing was the result of decreased anthrax cartridge sales under the USPS BDS program, and this expense will remain proportional to the sales of anthrax cartridges under the USPS BDS program.

Research and Development Expenses

Research and development expenses consist of salaries and employee-related expenses, including stock-based compensation, clinical trials, research and development materials, facility costs and depreciation. Research and development expenses increased 19% to $6.9 million in the first quarter of 2007 from $5.8 million in the first quarter of 2006. The increase in research and development expenses is primarily due to a $0.8 million increase in salaries and employee-related expenses resulting from our operational expansion in Europe and a $0.2 million increase in facility related costs. We expect that our quarterly research and development expenses will increase during the remainder of 2007 as we increase our assay development and incur additional costs associated with other development arrangements.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of salaries and employee-related expenses, including stock-based compensation, travel, facility, legal, accounting and other professional fees. Selling, general and administrative expenses increased 37% to $8.4 million in the first quarter of 2007 from $6.1 million in the first quarter of 2006. The increase of $2.3 million included a $1.1 million increase in salaries and employee-related expenses, including stock-based compensation expense, a $0.8 million increase in legal, accounting, and other professional expenses, and a $0.4 million increase in insurance and other administrative expenses. We expect our selling and marketing expenses to increase during the remainder of 2007 as we expand our efforts to market our recently approved Xpert EV and Xpert MRSA tests.

Other Income (Expense), Net

	Three Months Ended March 31,		
	2007	2006	% Change
	(Amounts in thousands)		
Other income (expenses), net:			
Interest income	$ 912	$ 512	78%
Interest expense	(10)	(219)	(95)%
Other income	125	53	136%
Total other income, net	$ 1,027	$ 346	197%

Other income, net consists of interest income, interest expense and other income. Interest income increased to $0.9 million in the three months ended March 31, 2007 from $0.5 million for the same period in 2006. The increase was primarily due to additional cash balances resulting from proceeds of our public offering of common stock in March 2006. Interest expense decreased to $0.01 million in the three months ended March 31, 2007 from $0.2 million for the same period in 2006. The decrease was primarily due to repayment of the lines of credit during the first quarter of 2006.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Flow

As of March 31, 2007, we had $54.3 million in cash and cash equivalents and marketable securities (including $0.7 million in restricted cash). Our total cash used in the three months ended March 31, 2007 was $41.3 million, which consisted of $8.8 million used for operating activities, $27.4 million for the acquisition of Sangtec, $4.5 million for purchases of technology licenses and intangible assets, and $1.2 million for capital expenditures, offset by $0.6 million provided by financing activities. We maintain our portfolio of cash equivalents and marketable securities in short-term commercial paper, auction rate securities and money market funds in order to minimize market risk and preserve principal.

Net cash used in operating activities was $8.8 million and $0.9 million for the three months ended March 31, 2007 and 2006, respectively. In the first quarter of 2007, net cash used in operating activities primarily consisted of $6.2 million net loss, which was partially offset by $2.5 million of depreciation expense and amortization of intangible assets and $2.0 million of stock based compensation. In addition, the decrease in operating assets and liabilities of $7.2 million consisted primarily of $3.4 million payments for patent related matters, $2.4 million for accounts payable, accrued compensation and other liabilities, and $2.2 million for inventory

and prepaid expense and other current assets, which were offset by $0.8 million related to accounts receivable, deferred revenue and other non-current assets. In the first quarter of 2006, net cash used in operating activities primarily consisted of $6.7 million net loss, which was partially offset by $1.8 million of depreciation expense and amortization of intangible assets and $1.7 million of stock-based compensation. In addition, the increase in operating assets and liabilities of $2.2 million consisted primarily of $2.8 million for accounts receivable, $0.5 million for inventory and $1.9 million for accounts payable and other current liabilities, which were partially offset by $3.0 million related to prepaid expenses and other current assets, accrued compensation and deferred revenue.

Net cash used in investing activities was $1.0 million and $30.9 million for the three months ended March 31, 2007 and 2006, respectively. In the first quarter of 2007, net cash used in investing activities consisted of $27.4 million to acquire Sangtec (net of acquired cash), $4.4 million for technology licenses and $1.2 million in capital expenditures, which were partially offset by $32.0 million proceeds from maturities of marketable securities. In the first quarter of 2006, net cash used in investing activities consisted of $1.9 million in capital expenditures, $1.1 million payments for technology licenses and $27.9 million in net marketable securities activities.

Net cash provided by financing activities was $0.6 million and $75.5 million for the three months ended March 31, 2007 and 2006, respectively. In the first quarter of 2007, cash provided by financing activities consisted of $0.7 million in net proceeds from the sale of common stock under our employee equity incentive plans that was partially offset by repayments of $0.1 million on our equipment loans. In the first quarter of 2006, cash provided by financing activities consisted of $82.6 million from the sale of common stock, including $80.6 million from our March 2006 common stock offering and $2.0 million from the sales of common stock under our employee equity incentive plans, that was partially offset by repayment of $7.1 million related to our line of credit and equipment financing.

Off-Balance-Sheet Arrangements

As of March 31, 2007, we did not have any off-balance-sheet arrangements, as defined in Item 303(a) (4) (ii) of Regulation S-K promulgated under the Securities Act of 1933.

Financial Condition Outlook

We plan to continue to make expenditures to expand our manufacturing capacity, to support our activities in sales and marketing and research and development, and to support our working capital needs. In addition to the acquisition of Sangtec, we expect to spend approximately $9 million for capital equipment in 2007. We expect to have positive cash flow from operations by the end of 2007. We used $41.8 million in cash (excluding proceeds of $32.0 million from maturities of marketable securities) in our operations and investing activities for the three months ended March 31, 2007. We anticipate that our existing capital resources will enable us to maintain currently planned operations. This expectation is based on our current and long-term operating plan and may change as a result of many factors, including our future capital requirements and our ability to increase revenues and reduce expenses, which, in many instances, depend on a number of factors outside our control. For example, our future cash use will depend on, among other things, market acceptance of our products, the resources we devote to developing and supporting our products, continued progress of our research and development of potential products, the need to acquire licenses to new technology or to use our technology in new markets, expansion through acquisitions and the availability of other financing.

In the future, we may seek additional funds to support our strategic business needs and may seek to raise such additional funds through private or public sales of securities, strategic relationships, bank debt, lease financing arrangements, or other available means. If additional funds are raised through the issuance of equity or equity-related securities, stockholders may experience additional dilution, or such equity securities may have rights, preferences, or privileges senior to those of the holders of our common stock. If adequate funds are not available or are not available on acceptable terms to meet our business needs, our business may be harmed.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. Our investments in interest- bearing assets are subject to interest rate risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline. To minimize this risk, we maintain our interest-bearing portfolio, which consists of cash and cash equivalents, in taxable auction variable rate notes and money market funds. Due to the short-term nature of the investments, we believe we have no material exposure to interest rate risk arising from our investments. Therefore we have not included quantitative tabular disclosure in this Form 10-Q.

We do not enter into financial investments for speculation or trading purposes and are not a party to financial or commodity derivatives.

We operate primarily in the United States and a majority of our revenue, cost, expense and capital purchasing activities are transacted in U.S. Dollars. Accordingly, we do not have material exposure to foreign currency rate fluctuations.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Regulations under the Securities Exchange Act of 1934 require public companies, including our company, to maintain "disclosure controls and procedures", which are defined to mean a company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Our Chief Executive Officer and our Chief Financial Officer, based on their evaluation of our disclosure controls and procedures as of the end of the period covered by of this report, concluded that our disclosure controls and procedures were effective for this purpose.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Regulations under the Securities Exchange Act of 1934 require public companies, including our company, to evaluate any change in our "internal control over financial reporting", which is defined as a process to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. In connection with their evaluation of our disclosure controls and procedures as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer did not identify any change in our internal control over financial reporting during the three months ended March 31, 2007, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not currently a party to any material legal proceedings.

ITEM 1A. RISK FACTORS

You should carefully consider the risks and uncertainties described below, together with all of the other information included in this Report, in considering our business and prospects. The risks and uncertainties described below are not the only ones facing Cepheid. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. The occurrence of any of the following risks could harm our business, financial condition or results of operations.

We may not achieve profitability.

We have incurred operating losses in each year since our inception. We experienced net losses of approximately $13.8 million in 2004, $13.6 million in 2005, $26.0 million in 2006 and $6.2 million for the first quarter of 2007. As of March 31, 2007, we had an accumulated deficit of approximately $139.6 million. Our ability to become profitable will depend on our ability to increase our revenues, which is subject to a number of factors including our ability to successfully penetrate the Clinical Molecular Diagnostic market, our ability to successfully market the GeneXpert system and develop effective GeneXpert tests, the extent of our participation in the USPS BDS program and the operating parameters of the USPS BDS program, which will affect the rate of our consumable products sold, the success of our other collaborative programs, our ability to compete effectively against current and future competitors, global economic and political conditions and the impact of SFAS 123(R). Our ability to become profitable also depends on our expense levels and product gross margin, which are also influenced by a number of factors, including the resources we devote to developing and supporting our products, the continued progress of our research and development of potential products, the ability to gain FDA clearance for our products, our ability to improve manufacturing efficiencies, license fees or royalties we may be required to pay, our ability to integrate acquired businesses and technologies, acquisition-related costs and expenses and the potential need to acquire licenses to new technology or to use our technology in new markets, which could require us to pay unanticipated license fees and royalties in connection with these licenses. Our expansion efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our revenues to offset higher expenses. These expenses, among other things, may cause our net income and working capital to decrease. If we fail to grow our revenue and manage our expenses and improve our product gross margin, we may never achieve profitability. If we fail to do so, the market price of our common stock will likely decline.

Our participation in the USPS BDS program may not result in predictable contracts or revenues in the future.

Our participation in the USPS BDS program involves significant uncertainties related to governmental decision-making and timing of deployment, and is highly sensitive to changes in national and international priorities and budgets. Budgetary pressures may result in reduced allocations to government agencies such as the USPS, sometimes without advanced notice. We cannot be certain that actual funding and operating parameters, or product purchases, will occur at currently expected levels or in the currently expected timeframe. We are currently in negotiations to extend purchases for the BDS for a longer period. However, we cannot assure you that these negotiations will result in an extended purchase commitment. There is no current obligation on the part of the USPS to buy a minimum number of tests, purchase decisions are currently made on a year by year basis, and we are subject to future spending patterns and budgetary cycles.

If we cannot successfully commercialize our products, our business could be harmed.

If our tests for use on the SmartCycler and GeneXpert platforms do not gain market acceptance, we will be unable to generate significant sales, which will prevent us from achieving profitability. While we have received FDA clearance for our GBS test and recently received FDA clearances for our GeneXpert enterovirus test and MRSA test, these products may not achieve commercial success. Many factors may affect the market acceptance and commercial success of our products, including:

- timely development of a menu of tests and reagents;
- the results of clinical trials needed to support any regulatory approvals of our tests;
- our ability to obtain requisite FDA or other regulatory clearances or approvals for our tests under development on a timely basis;
- demand for the tests and reagents we are able to introduce;

- the timing of market entry for various tests for the GeneXpert and the SmartCycler systems;
- our ability to convince our potential customers of the advantages and economic value of our systems and tests over competing technologies and products;
- the breadth of our test menu relative to competitors;
- the extent and success of our marketing and sales efforts; and
- publicity concerning our systems and tests.

In particular, we believe that the success of our business will depend in large part on our ability to introduce additional tests for the Clinical Molecular Diagnostic market. We have had substantial revenue concentrations in recent periods resulting from the USPS BDS program. We believe that successfully building our business in the Clinical Molecular Diagnostic market is critical to our long-term goals and success. We have limited ability to forecast future demand for our products in this market. In addition, we have committed substantial funds to licenses that are required for us to enter the Clinical Molecular Diagnostic market. If we cannot successfully penetrate the Clinical Molecular Diagnostic market to exploit these licenses, these investments may not yield significant returns, which could harm our business.

The regulatory approval process is expensive, time-consuming, and uncertain and may prevent us from obtaining required approvals for the commercialization of some of our products.

In the Clinical Molecular Diagnostic market, our products may generally be regulated as medical devices by the FDA and comparable agencies of other countries. In particular, FDA regulations govern activities such as product development, product testing, product labeling, product storage, premarket clearance or approval, manufacturing, advertising, promotion, product sales, reporting of certain product failures and distribution. Some of our products, depending on their intended use, will require premarket approval ("PMA") or 510(k) clearance from the FDA prior to marketing. The 510(k) clearance process usually takes from three to six months from submission but can take longer. The PMA process is much more costly, lengthy, and uncertain and generally takes from one to two years or longer from submission. Clinical trials are generally required to support both PMA and 510(k) submissions. Certain of our products for use on our SmartCycler and GeneXpert systems, when used for clinical purposes, may require PMA, and all such tests will most likely, at a minimum, require 510(k) clearance. We are planning clinical trials for other proposed products. Clinical trials are expensive and time-consuming. In addition, the commencement or completion of any clinical trials may be delayed or halted for any number of reasons, including product performance, changes in intended use, changes in medical practice and issues with evaluator Institutional Review Boards.

Failure to comply with the applicable requirements can result in, among other things, warning letters, administrative or judicially imposed sanctions such as injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, refusal to grant premarket clearance or PMA for devices, withdrawal of marketing clearances or approvals, or criminal prosecution. To date, we have received FDA clearance on our GBS test, effective July 25, 2006, our Enterovirus GeneXpert test, effective March 19, 2007, and our MRSA GeneXpert test, effective April 17, 2007. With regard to future products for which we seek 510(k) clearance or PMA from the FDA, any failure or material delay to obtain such clearance or approval could harm our business. If the FDA were to disagree with our regulatory assessment and conclude that approval or clearance is necessary to market the products, we could be forced to cease marketing the products and seek approval or clearance. With regard to those future products for which we will seek 510(k) clearance or PMA from the FDA, any failure or material delay to obtain such clearance or approval could harm our business. In addition, it is possible that the current regulatory framework could change or additional regulations could arise at any stage during our product development or marketing, which may adversely affect our ability to obtain or maintain approval of our products and could harm our business.

Our manufacturing facilities located in Sunnyvale, California and Bromma, Sweden, where we assemble and produce the SmartCycler system and the GeneXpert system, cartridges and other molecular diagnostic kits and reagents, are subject to periodic regulatory inspections by the FDA and other federal and state regulatory agencies. For example, these facilities are subject to Quality System Regulations ("QSR") of the FDA and are subject to annual inspection and licensing by the State of California and European regulatory agencies. If we fail to maintain these facilities in accordance with the QSR requirements, international quality standards or other regulatory requirements, our manufacturing process could be suspended or terminated, which would prevent us from being able to provide products to our customers in a timely fashion and therefore harm our business.

The U.S. Food and Drug Administration has issued a draft interpretation of the regulations governing the sale of Analyte Specific Reagent products which could prevent or delay our sales of these products and harm our business.

In September 2006, the FDA published "Draft Guidance for Industry and FDA Staff: Commercially Distributed Analyte Specific Reagents ("ASRs"): Frequently Asked Questions" clarifying the FDA's interpretation of the regulations governing the sale of Analyte Specific Reagent, or ASR, products. Based upon public meetings conducted by the FDA since the September 2006 draft guidance policy publication, it appears the FDA is willing to take up comments from the public and modify this draft guidance policy. ASRs are a class of products that do not require regulatory clearance or approval. The draft guidance document contains an interpretation of the ASR regulations that is a departure from what we believe to be the existing FDA practice and policy regarding products that can be characterized as ASRs. If this draft guidance document becomes the final guidance document, and if the FDA begins enforcing this interpretation of the ASR regulations as is, some of our current ASR products may not meet the regulatory definition of an ASR, e.g., duplex target products. If this were to occur, we might have to stop selling these duplex target ASR products until the products receive, if possible, the applicable FDA approval or clearance. Furthermore, the enforcement of this new interpretation might prevent us from developing any new products that would qualify as ASRs.

We rely on licenses of key technology from third parties and will require additional licenses for many of our new product candidates.

We rely on third-party licenses to be able to sell many of our products, and we could lose these third-party licenses for a number of reasons, including, for example, early terminations of such agreements due to breaches or alleged breaches by either party to the agreement. If we are unable to enter into a new agreement for licensed technologies, either on terms that are acceptable to us or at all, we may be unable to sell some of our products or access some geographic or industry markets. We also need to introduce new products and product features in order to market our products to a broader customer base and grow our revenues, and many new products and product features could require us to obtain additional licenses and pay additional license fees and royalties. Furthermore, for some markets, we intend to manufacture reagents and tests for use on our instruments. We believe that manufacturing reagents and developing tests for our instruments is important to our business and growth prospects but will require additional licenses, which may not be available on commercially reasonable terms or at all. Our ability to develop, manufacture and sell products, and our strategic plans and growth, could be impaired if we are unable to obtain these licenses or if these licenses are terminated or expire and cannot be renewed. We may not be able to obtain or renew licenses for a given product or product feature or for some reagents on commercially reasonable terms, if at all. Furthermore, some of our competitors have rights to technologies and reagents that we do not have which may put us at a competitive disadvantage in certain circumstances and could adversely affect our performance.

We may face risks associated with acquisitions of companies, products and technologies, and our business could be harmed if we are unable to address these risks.

If we are presented with appropriate opportunities, we intend to acquire or make other investments in complementary companies, products or technologies. For example, in August 2006, we acquired Actigenics SA, a French micro RNA research and services company, and in February 2007 we acquired Sangtec Molecular Diagnostics AB ("Sangtec"), a Swedish PCR molecular diagnostics company. We may not realize the anticipated benefit of any acquisition or investment. We will likely face risks, uncertainties and disruptions associated with the integration process, including difficulties in the integration of the operations and services of an acquired company, integration of acquired technology with our products, diversion of our management's attention from other business concerns, the potential loss of key employees or customers of the acquired businesses and impairment charges if future acquisitions are not as successful as we originally anticipate. If we fail to successfully integrate other companies, products or technologies that we acquire, our business could be harmed. Furthermore, we may have to incur debt or issue equity securities to pay for any additional future acquisitions or investments, the issuance of which could be dilutive to our existing shareholders. In addition, our operating results may suffer because of acquisition-related costs or amortization expenses or charges relating to acquired intangible assets.

We expect that our operating results will fluctuate significantly, and any failure to meet financial expectations may result in a decline in our stock price.

We expect that our quarterly operating results will fluctuate in the future as a result of many factors, such as those described elsewhere in this section, many of which are beyond our control. Because our revenue and operating results are difficult to predict, we believe that period-to-period comparisons of our results of operations are not a good indicator of our future performance. Our operating results may be affected by the inability of some of our customers to consummate anticipated purchases of our products, whether due to changes in internal priorities or, in the case of governmental customers, problems with the appropriations process and variability and timing of orders, or manufacturing inefficiencies. If revenue declines in a quarter, whether due to a delay in recognizing expected revenue, unexpected costs or otherwise, our results of operations will be harmed because many of our expenses are relatively fixed. In particular, research and development and selling, general and administrative expenses are not significantly

affected by variations in revenue. If our quarterly operating results fail to meet or exceed the expectations of securities analysts or investors, our stock price could drop suddenly and significantly.

If we are unable to manufacture our products in sufficient quantities and in a timely manner, our operating results will be harmed and our ability to generate revenue could be diminished.

Our revenues and other operating results will depend in large part on our ability to manufacture and assemble our products in sufficient quantities and in a timely manner. Any interruptions we experience in the manufacturing or shipping of our products could delay our ability to recognize revenues in a particular quarter. We have limited experience in manufacturing large volumes of products, and manufacturing problems can and do arise or we may be unable to adequately scale-up manufacturing in a timely manner or on a commercially reasonable basis if we experience increased demand. In the past, we have experienced problems and delays in production that have impacted our product yield and caused delays in our ability to ship finished products, and we may experience such delays in the future. We may not be able to react quickly enough to ship products and recognize anticipated revenues for a given period if we experience significant delays in the manufacturing process. If we are unable to manufacture our products consistently and on a timely basis, our revenues from product sales, gross margins and our other operating results will be materially and adversely affected.

If certain single source suppliers fail to deliver key product components in a timely manner, our manufacturing ability would be impaired and our product sales could suffer.

We depend on certain single source suppliers that supply components used in the manufacture of our instruments and our disposable reaction tubes and cartridges. If we need alternative sources for key component parts for any reason, these component parts may not be immediately available to us. If alternative suppliers are not immediately available, we will have to identify and qualify alternative suppliers, and production of these components may be delayed. We may not be able to find an adequate alternative supplier in a reasonable time period or on commercially acceptable terms, if at all. Shipments of affected products have been limited or delayed as a result of such problems in the past, and similar problems could occur in the future. Our inability to obtain our key source supplies for the manufacture of our products may require us to delay shipments of products, harm customer relationships or force us to curtail or cease operations.

If certain of our products fail to obtain an adequate level of reimbursement from third-party payers, our ability to sell products in the Clinical Molecular Diagnostic market would be harmed.

Our ability to sell our products in the Clinical Molecular Diagnostic market will depend in part on the extent to which reimbursement for tests using our products will be available from:

- government health administration authorities;
- private health coverage insurers;
- managed care organizations; and
- other organizations.

There are efforts by governmental and third-party payers to contain or reduce the costs of health care through various means. Additionally, third-party payers are increasingly challenging the price of medical products and services. If purchasers or users of our products are not able to obtain adequate reimbursement for the cost of using our products, they may forego or reduce their use. Significant uncertainty exists as to the reimbursement status of newly approved health care products and whether adequate third-party coverage will be available.

If our competitors and potential competitors develop superior products and technologies, our competitive position and results of operations would suffer.

We face intense competition from a number of companies that offer products in our target markets. These competitors include:

- companies developing and marketing sequence detection systems for industrial research products;
- healthcare companies that manufacture laboratory-based tests and analyzers;
- diagnostic companies; and
- companies developing or offering biothreat detection technologies.

Several companies provide instruments and reagents for DNA amplification or detection. ABI and Roche sell systems integrating DNA amplification and detection (sequence detection systems) to the commercial market. Roche, Abbott Laboratories, Qiagen, Celera and GenProbe sell large sequence detection systems, some with separate robotic batch DNA purification systems and sell reagents to the Clinical Molecular Diagnostic market. Other companies, including Becton, Dickinson and Company, Beckman Coulter, Inc., Bayer and bioMerieux, offer molecular tests.

If our products do not perform as expected or the reliability of the technology on which our products are based is questioned, we could experience lost revenue, delayed or reduced market acceptance of our products, increased costs and damage to our reputation.

Our success depends on the market's confidence that we can provide reliable, high-quality molecular test systems. We believe that customers in our target markets are likely to be particularly sensitive to product defects and errors. Our reputation and the public image of our products or technologies may be impaired if our products fail to perform as expected or our products are perceived as difficult to use. Despite testing, defects or errors could occur in our products or technologies. Furthermore, with respect to the BDS program, our products are incorporated into larger systems that are built and delivered by others; we cannot control many aspects of the final product.

In the future, if we experience a material defect or error, this could result in loss or delay of revenues, delayed market acceptance, damaged reputation, diversion of development resources, legal claims, increased insurance costs or increased service and warranty costs, any of which could harm our business. Any failure in the overall BDS, even if it is unrelated to our products, could harm our business. Even after any underlying concerns or problems are resolved, any widespread concerns regarding our technology or any manufacturing defects or performance errors in our products could result in lost revenue, delayed market acceptance, damaged reputation, increased service and warranty costs, and claims against us.

If product liability lawsuits are successfully brought against us, we may face reduced demand for our product and incur significant liabilities.

We face an inherent risk of exposure to product liability claims if our technologies or systems are alleged to have caused harm or do not perform in accordance with specifications, in part because our products are used for sensitive applications. We cannot be certain that we would be able to successfully defend any product liability lawsuit brought against us. Regardless of merit or eventual outcome, product liability claims may result in:

- decreased demand for our products;
- injury to our reputation;
- costs of related litigation; and
- substantial monetary awards to plaintiffs.

If we become the subject of a successful product liability lawsuit, we could incur substantial liabilities, which could harm our business.

We rely on relationships with collaborative partners and other third parties for development, supply and marketing of certain products and potential products, and such collaborative partners or other third parties could fail to perform sufficiently.

We believe that our success in penetrating our target markets depends in part on our ability to develop and maintain collaborative relationships with other companies. Relying on collaborative relationships is risky to our future success for these products because, among other things:

- our collaborative partners may not devote sufficient resources to the success of our collaboration;
- our collaborative partners may not obtain regulatory approvals necessary to continue the collaborations in a timely manner;
- our collaborative partners may be acquired by another company and decide to terminate our collaborative partnership or become insolvent;
- our collaborative partners may develop technologies or components competitive with our products;
- components developed by collaborators could fail to meet specifications, possibly causing us to lose potential projects and subjecting us to liability;

- disagreements with collaborators could result in the termination of the relationship or litigation;
- collaborators may not have sufficient capital resources;
- collaborators may pursue tests or other products that will not generate significant volume for us, but may consume significant research and development and manufacturing resources; and
- we may not be able to negotiate future collaborative arrangements, or renewals of existing collaborative agreements, on acceptable terms.

Because these and other factors may be beyond our control, the development or commercialization of these products may be delayed or otherwise adversely affected.

If we or any of our collaborative partners terminate a collaborative arrangement, we may be required to devote additional resources to product development and commercialization or we may need to cancel some development programs, which could adversely affect our product pipeline and business.

If our direct selling efforts for our products fail, our business expansion plans could suffer, and our ability to generate revenue will be diminished.

We have a relatively small sales force compared to our competitors. If our direct sales force is not successful, we may not be able to increase market awareness and sales of our products. If we fail to establish our systems in the marketplace, it could have a negative effect on our ability to sell subsequent systems and hinder the planned expansion of our business.

If our distributor relationships are not successful, our ability to market and sell our products would be harmed and our financial performance will be adversely affected.

We depend on relationships with distributors for the marketing and sales of our products in the Industrial and Clinical Molecular Diagnostic markets in various geographic regions, and we have a limited ability to influence their efforts. Product sales through distributors represented 18% and 14% of total product sales for 2006 and 2005, respectively. We expect to continue to rely substantially on our distributor relationships for sales into other markets or geographic regions, which is key to our long-term growth potential. Relying on distributors for our sales and marketing could harm our business for various reasons, including:

- agreements with distributors may terminate prematurely due to disagreements or may result in litigation between the partners;
- we may not be able to renew existing distributor agreements on acceptable terms;
- our distributors may not devote sufficient resources to the sale of products;
- our distributors may be unsuccessful in marketing our products;
- our existing relationships with distributors may preclude us from entering into additional future arrangements with other distributors; and
- we may not be able to negotiate future distributor agreements on acceptable terms.

We may be subject to third-party claims that require additional licenses for our products and we could face costly litigation, which could cause us to pay substantial damages and limit our ability to sell some or all of our products.

Our industry is characterized by a large number of patents, claims of which appear to overlap in many cases. As a result, there is a significant amount of uncertainty regarding the extent of patent protection and infringement. Companies may have pending patent applications, which are typically confidential for the first eighteen months following filing, that cover technologies we incorporate in our products. As a result, we may be subjected to substantial damages for past infringement or be required to modify our products or stop selling them if it is ultimately determined that our products infringe a third party's proprietary rights. Moreover, from time to time, we receive correspondence and other communications from companies that ask us to evaluate the need for a license of patents they hold, and indicating or suggesting that we need a license to their patents in order to offer our products and services or to conduct our business operations. Even if we are successful in defending against claims, we could incur substantial costs in doing so. Any litigation related to claims of patent infringement could consume our resources and lead to significant damages, royalty payments or an injunction on the sale of certain products. Any additional licenses to patented technology could obligate us to pay substantial additional royalties, which could adversely impact our product costs and harm our business.

If we fail to maintain and protect our intellectual property rights, our competitors could use our technology to develop competing products and our business will suffer.

Our competitive success will be affected in part by our continued ability to obtain and maintain patent protection for our inventions, technologies and discoveries, including our intellectual property that includes technologies that we license. Our ability to do so will depend on, among other things, complex legal and factual questions. We have patents related to some technology and have licensed some of our technology under patents of others. We cannot assure you that our patents and licenses will successfully preclude others from using our technology. Our pending patent applications may lack priority over applications submitted by third parties or may not result in the issuance of patents. Even if issued, our patents may not be sufficiently broad to provide protection against competitors with similar technologies and may be challenged, invalidated or circumvented.

In addition to patents, we rely on a combination of trade secrets, copyright and trademark laws, nondisclosure agreements, licenses and other contractual provisions and technical measures to maintain and develop our competitive position with respect to intellectual property. Nevertheless, these measures may not be adequate to safeguard the technology underlying our products. For example, employees, consultants and others who participate in the development of our products may breach their agreements with us regarding our intellectual property, and we may not have adequate remedies for the breach. We also may not be able to effectively protect our intellectual property rights in some foreign countries, as many countries do not offer the same level of legal protection for intellectual property as the United States. Furthermore, for a variety of reasons, we may decide not to file for patent, copyright or trademark protection outside of the United States. Our trade secrets could become known through other unforeseen means. Notwithstanding our efforts to protect our intellectual property, our competitors may independently develop similar or alternative technologies or products that are equal or superior to our technology. Our competitors may also develop similar products without infringing on any of our intellectual property rights or design around our proprietary technologies. Furthermore, any efforts to enforce our proprietary rights could result in disputes and legal proceedings that could be costly and divert attention from our business.

We may need to initiate lawsuits to protect or enforce our patents, which would be expensive and, if we lose, may cause us to lose some, if not all, of our intellectual property rights, and thereby impair our ability to compete.

We rely on patents to protect a large part of our intellectual property. To protect or enforce our patent rights, we may initiate patent litigation against third parties, such as infringement suits or interference proceedings. These lawsuits could be expensive, take significant time and divert management's attention from other business concerns. They would also put our patents at risk of being invalidated or interpreted narrowly, and our patent applications at risk of not issuing. We may also provoke these third parties to assert claims against us. Patent law relating to the scope of claims in the technology fields in which we operate is still evolving and, consequently, patent positions in our industry are generally uncertain. We cannot assure you that we would prevail in any of these suits or that the damages or other remedies awarded, if any, would be commercially valuable. During the course of these suits, there may be public announcements of the results of hearings, motions and other interim proceedings or developments in the litigation. Any public announcements related to these suits could cause our stock price to decline.

Our sales cycle can be lengthy, which can cause variability and unpredictability in our operating results.

The sales cycles for our systems products can be lengthy, which makes it more difficult for us to accurately forecast revenues in a given period, and may cause revenues and operating results to vary significantly from period to period. Sales of our products to the Industrial market often involve purchasing decisions by large public and private institutions, and any purchases can require many levels of pre-approval. In addition, many of these sales depend on these institutions receiving research grants from various federal agencies, which grants vary considerably from year to year in both amount and timing due to the political process. As a result, we may expend considerable resources on unsuccessful sales efforts or we may not be able to complete transactions on the schedule anticipated.

Our international operations subject us to additional risks and costs.

Our international operations have expanded recently. These operations are subject to a number of difficulties and special costs, including:

- compliance with multiple, conflicting and changing governmental laws and regulations;
- laws and business practices favoring local competitors;
- potential for exchange and currency risks;
- potential difficulty in collecting accounts receivable;

- import and export restrictions and tariffs;
- difficulties staffing and managing foreign operations;
- difficulties and expense in enforcing intellectual property rights;
- business risks, including fluctuations in demand for our products and the cost and effort to conduct international operations and travel abroad to promote international distribution, and global economic conditions;
- multiple conflicting tax laws and regulations; and
- political and economic instability.

We intend to expand our international sales and marketing activities, including through our subsidiary in France, and enter into relationships with additional international distribution partners. We may not be able to attract international distribution partners that will be able to market our products effectively.

Our international operations could also increase our exposure to international laws and regulations. If we cannot comply with foreign laws and regulations, which are often complex and subject to variation and unexpected changes, we could incur unexpected costs and potential litigation. For example, the governments of foreign countries might attempt to regulate our products and services or levy sales or other taxes relating to our activities. In addition, foreign countries may impose tariffs, duties, price controls or other restrictions on foreign currencies or trade barriers, any of which could make it more difficult for us to conduct our business.

The nature of some of our products may also subject us to export control regulation by the US Department of State and the Department of Commerce. Violations of these regulations can result in monetary penalties and denial of export privileges.

Our SmartCycler and GeneXpert products are distributed in Europe under the CE IVD mark, and we intend to introduce additional products under the CE IVD mark as we pursue our expansion plans. Our use of the CE IVD mark is based on self declarations of conformity with stated directives and standards of the European Parliament and Council and is subject to review by competent authorities in Europe. Our recently acquired subsidiary, Sangtec, successfully introduced CE IVD-marked products that require independent third party review recognized by competent authorities, for example, a CMV test for use on our SmartCycler instrument. Any finding of non-conformity under such a review could prevent or otherwise adversely affect our ability to distribute products in Europe and result in other consequences, including both criminal sanctions, such as the imposition of fines or penalties, and civil claims for damages from persons suffering damage as a result of the non-conformity.

If we fail to retain key members of our staff, our ability to conduct and expand our business would be impaired.

We are highly dependent on the principal members of our management and scientific staff. The loss of services of any of these persons could seriously harm our product development and commercialization efforts. In addition, we will require additional skilled personnel in areas such as microbiology, clinical and sales and marketing. Attracting, retaining and training personnel with the requisite skills remains challenging, and, as general economic conditions improve, is becoming increasingly competitive, particularly in the Silicon Valley area of California where our main office is located. If at any point we are unable to hire, train and retain a sufficient number of qualified employees to match our growth, our ability to conduct and expand our business could be seriously reduced.

If we become subject to claims relating to improper handling, storage or disposal of hazardous materials, we could incur significant cost and time to comply.

Our research and development processes involve the controlled storage, use and disposal of hazardous materials, including biological hazardous materials. We are subject to federal, state and local regulations governing the use, manufacture, storage, handling and disposal of materials and waste products. We may incur significant costs complying with both existing and future environmental laws and regulations. In particular, we are subject to regulation by the Occupational Safety and Health Administration (“OSHA”) and the Environmental Protection Agency (“EPA”), and to regulation under the Toxic Substances Control Act and the Resource Conservation and Recovery Act. OSHA or the EPA may adopt regulations that may affect our research and development programs. We are unable to predict whether any agency will adopt any regulations that would have a material adverse effect on our operations.

The risk of accidental contamination or injury from hazardous materials cannot be eliminated completely. In the event of an accident, we could be held liable for any damages that result, and any liability could exceed the limits or fall outside the coverage of our insurance. We may not be able to maintain insurance on acceptable terms, if at all. We could be required to incur significant costs to comply with current or future environmental laws and regulations.

If a catastrophe strikes our manufacturing facilities, we may be unable to manufacture our products for a substantial amount of time and we would experience lost revenue.

Our manufacturing facilities are located in Sunnyvale, California, Bromma, Sweden, and Bothell, Washington. Although we have business interruption insurance, our facilities and some pieces of manufacturing equipment are difficult to replace and could require substantial replacement lead-time. Various types of disasters, including earthquakes, fires, floods and acts of terrorism, may affect our manufacturing facilities. Earthquakes are of particular significance since the manufacturing facilities in California are located in an earthquake-prone area. In the event our existing manufacturing facilities or equipment is affected by man-made or natural disasters, we may be unable to manufacture products for sale or meet customer demands or sales projections. If our manufacturing operations were curtailed or ceased, it would seriously harm our business.

We might require additional capital to support business growth, and such capital might not be available.

We may need to engage in additional equity or debt financing to support business growth and respond to business challenges, which include the need to develop new products or enhance existing products, conduct clinical trials, enhance our operating infrastructure and acquire complementary businesses and technologies. Equity and debt financing, however, might not be available when needed or, if available, might not be available on terms satisfactory to us. In addition, to the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of these securities could result in dilution to our shareholders. In addition, these securities may be sold at a discount from the market price of our common stock and may include right preferences or privileges senior to those of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

Compliance with regulations governing public company corporate governance and reporting is complex and expensive.

Many laws and regulations, notably those adopted in connection with the Sarbanes-Oxley Act of 2002 by the SEC and the NASDAQ Stock Market, impose obligations on public companies, such as ours, which have increased the scope, complexity, and cost of corporate governance, reporting, and disclosure practices. Our implementation of these reforms and enhanced new disclosures has required and will continue to require substantial management time and oversight and requires us to incur significant additional accounting and legal costs.

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

Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders in the first quarter of 2007.

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference			Filing Date	Filed Herewith
		Form	File No.	Exhibit		
10.1	Settlement and Cross-License Agreement between Cepheid and Idaho Technology, Inc. dated January 2, 2007.					X
10.2†	Sublicense agreement between Cepheid and bioMerieux S.A. dated January 16, 2007.					X
10.3	Employment Agreement dated January 24, 2007, by and between Cepheid and John L. Bishop	8-K		10.1	1/29/2007	
10.4	Share Purchase Agreement dated February 14, 2007, by and	8-K		2.1	2/20/2007	

Exhibit Number	Exhibit Description	Incorporated by Reference			Filing Date	Filed Herewith
		Form	File No.	Exhibit		
	between Cepheid, Altana Technology Projects GmbH, and Altana Pharma AG					
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*					X
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*					X

* This certification accompany this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.

† Confidential treatment has been requested with regard to portions of the exhibit. Such portions were filed separately with the Securities and Exchange Commission.

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, in the City of Sunnyvale, State of California on this 10th day of May 2007.

CEPHEID
(Registrant)

/s/ John L. Bishop
John L. Bishop
Chief Executive Officer and Director
(Principal Executive Officer)

/s/ John R. Sluis
John R. Sluis
Senior Vice President, Finance and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit Index

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† Confidential treatment has been requested with regard to portions of the exhibit. Such portions were filed separately with the Securities and Exchange Commission.

Source: CEPHEID, 10-Q, May 10, 2007

Exhibit 10.1

SETTLEMENT AND CROSS-LICENSE AGREEMENT

January 2, 2007

This Settlement and Cross-License Agreement (this "Agreement") is made and entered into between and among Idaho Technology, Inc. ("Idaho Technology"); the University of Utah Research Foundation ("Utah Research Foundation"); and Cepheid, a California corporation ("Cepheid") as of the date first set forth above.

Background Information

A. Idaho Technology and the Utah Research Foundation (collectively hereafter, "Idaho Technology Plaintiffs") claim to own and/or exclusively license certain patent rights including rights to grant sub-licenses in the fields of Real-Time PCR, Rapid PCR Amplification Methods, and Melting Curve Analysis.

B. Idaho Technology Plaintiffs allege that Cepheid infringes certain patents, and has filed a lawsuit styled, "Idaho Technology, Inc. and the University of Utah Research Foundation v. Cepheid," Case No. 2:05CV01063TS, pending in the United States District Court for the District of Utah (the "Utah Litigation"). In the Utah Litigation, Idaho Technology Plaintiffs specifically allege Cepheid's infringement of U.S. Patent Nos. 6,787,338 and 6,569,627; and claims 76 and 77 of U.S. Patent No. 6,174,670, relative to products including Cepheid's GeneXpert® and SmartCycler® devices and kits identified as the "IDI-Strep B Test."

C. The parties now wish to settle the Utah Litigation, on terms and conditions agreeable to all parties, including the payment by Cepheid of monetary consideration to Idaho Technology and the grant of rights in certain patents and patent applications by Idaho Technology to Cepheid and by Cepheid to Idaho Technology, as specified below.

Accordingly, in exchange for good and valuable consideration, the receipt and legal adequacy of which is expressly acknowledged, the parties hereby covenant and agree as follows:

Idaho Technology Licensed Patents

1. "Idaho Technology Licensed Patents" shall mean U.S. Patent Nos. 6,787,338; 6,503,720 and 6,303,305, pending U.S. Patent Applications Nos. 10/843,075 and 10/891,161, and all continuations, divisions, CIPs, and respective foreign counterparts thereof. Idaho Technology Licensed Patents shall also include claims 9, 10, 11, 56, 76, 80 and 107 of U.S. Patent No. 6,174,670, claims of

substantially the same scope in foreign counterparts, and claims of continuations, divisions, CIPs, and other patents claiming priority from U.S. Patent No. 6,174,670, but only to the extent necessary to practice claims 9, 10, 11, 56, 76, 80 or 107 of U.S. Patent No. 6,174,670, U.S. Patent Nos. 6,787,338; 6,503,720 and 6,303,305, or pending U.S. Patent Applications Nos. 10/843,075 and 10/891,161.

2. "Cepheid Instrument" means a thermal cycling device or instrument marketed, distributed, sold, leased or otherwise transferred by Cepheid that:

   a. is primarily intended for use in the automated performance of the polymerase chain reaction (PCR) process;

   b. has one or more positions, each for receiving a single reaction vessel having a reaction volume no larger than 100 microliters, wherein the temperature profile for thermal cycling each reaction can be controlled independently of any other reaction, regardless of whether the reactions are thermal cycled simultaneously, sequentially or otherwise;

   c. for such device or instrument that has more than one reaction vessel, is capable of simultaneously thermal cycling all reaction vessels wherein each vessel is controlled independently of the others during such simultaneous cycling;

   d. may optionally include use of a micro-array of nucleic acid reaction locations within a reaction vessel, wherein the reaction vessel and micro-array are arranged such that each location in the micro-array is exposed to the same, common, reagent environment in the reaction vessel, and wherein the micro-array is located or specifically configured to be located within a reaction vessel that is proprietary to Cepheid;

   e. that but for the license granted in paragraph 4 below, would infringe upon (including contributory infringement) or induce infringement of, one or more of the Idaho Technology Licensed Patents; and

   f. is marketed, distributed, sold, leased or otherwise transferred using trademarks owned by Cepheid.

For purposes of this Agreement, and by way of example, Cepheid's current SmartCycler® and GeneXpert® instruments are "Cepheid Instruments," whereas air thermal cyclers having a carousel (e.g. Idaho Technology's R.A.P.I.D.®, Roche's LightCycler®, and Corbett's Rotor-Gene), microtiter plate-based thermal cyclers (e.g. ABI's 2720, 9700, and 9800), and flexible pouch-based thermal cyclers wherein the sample is moved within the pouch between multiple temperature zones (e.g. Idaho Technology's RAZOR® and Iquum's Liat®) are not "Cepheid Instruments."

3. "Cepheid Licensed Kits" means kits:

   a. that include one or more PCR reagents (including but not limited to polymerases, dNTPs, primers, probes, dyes, buffers, and instructions for use);

   b. that but for the license granted in paragraph 4 below, would infringe upon (including contributory infringement) or induce infringement of, one or more of the Idaho Technology Licensed Patents;

c. wherein such PCR reagents are packaged in or marketed to be used with a reaction vessel proprietary to Cepheid that is configured to be received exclusively in a thermal cycling position of a Cepheid Instrument; and

d. are marketed, distributed, sold or otherwise transferred (i) exclusively using trademarks owned by Cepheid or (ii) using trademarks owned by Cepheid and trademarks owned by an exclusive Cepheid distributor, provided that (A) Cepheid's trademarks shall be the primary and dominant marks in terms of size and placement, and (B) the exclusive Cepheid distributor's trademarks shall be secondary and subordinate in terms of size and placement.

4. Grant by Idaho Technology – Subject to paragraph 10 below, Idaho Technology hereby grants to Cepheid and its Affiliates the world-wide, non-exclusive, fully-paid up, perpetual, royalty-free, non-terminable and irrevocable right and license to make, have made, use, sell, offer to sell, have sold, import, and export Cepheid Instruments and Cepheid Licensed Kits pursuant to the Idaho Technology Licensed Patents (the "Cepheid License"). Additionally, Idaho Technology Plaintiffs release Cepheid for any claims of past infringement of the Idaho Technology Licensed Patents and all of the claims of U.S. Patent Nos. 6,569,627 and 6,174,670, but Idaho Technology grants no future rights in the Cepheid License under U.S. Patent No. 6,569,627, and future rights under the Cepheid License are only granted in claims 9, 10, 11, 56, 76, 80 and 107 of U.S. Patent No. 6,174,670. Solely with respect to Cepheid Instruments and Cepheid Licensed Kits manufactured, distributed or sold by Cepheid (including by and through its distributors), Idaho Technology Plaintiffs also release Cepheid's distributors and customers for any claims of past infringement of the Idaho Technology Licensed Patents and all of the claims of U.S. Patent Nos. 6,569,627 and 6,174,670.

In addition, Idaho Technology covenants not to sue Cepheid for infringement of any claims in continuations, divisions, CIPs and foreign counterparts of U.S. Patent Nos. 6,569,627 and 6,174,670 (the '627 and '670 patents) issued on or after the Effective Date, and other patents issued on or after the Effective Date claiming priority from the '627 or '670 patent or the applications upon which such patents are based; *provided*, *however*, that (a) such covenant not to sue extends solely to the extent that such Cepheid Instruments and Cepheid Licensed Kits as listed and described in the "Product Specifications" (as such quoted term is defined below), would, but for the Cepheid License, infringe upon (including contributory infringement) or induce infringement of, one or more of the Idaho Technology Licensed Patents; and (b) such covenant not to sue shall <u>not</u> extend to, and expressly excludes, any of the following items, services or processes: (i) FRET hybridization probe pairs, (ii) SYBR® Green I, (iii) LCGreen® I, LCGreen® Plus, (iv) SimpleProbes®, (v) high resolution melting using a saturation dye and/or an unlabeled probe (as defined in U.S. Patent Application Publication Nos. 2005/0233335 and 2006/0019253), (vi) all claims of U.S. Patent No. 6,174,670 not specifically included in the Idaho Technology Licensed

Patents, or (vii) any additional nucleic acid detection method wherein the detection means or use thereof is proprietary to Idaho Technology and that is first filed, first sold, first offered for sale, or for which rights are first acquired by Idaho Technology after the Effective Date.
For the avoidance of doubt, in the practice of the Idaho Technology Licensed Patents, Cepheid's use of TaqMan® probes, Scorpion® probes, and other detection moieties for which use is not otherwise proprietary to Idaho Technology is specifically included within the Cepheid License.

For purposes of this Agreement, "Affiliate" shall mean any person, firm, business, corporation, limited liability company or other form of legal entity controlled by, under common control with, or controlling, the party. For these purposes, "control" shall refer to the ownership, directly or indirectly, of at least 50% of the voting securities or other ownership interests of a person or entity.

For purposes of this Agreement, "Product Specifications" shall mean the product and software specifications, information and other data disclosed by Cepheid to Idaho Technology, pursuant to the Mutual Non-Disclosure Agreement referenced in paragraph 39 below, through a password-protected electronic data room. The Product Specifications shall be, and hereby are, incorporated by reference as if set forth verbatim herein, and shall be maintained for reference purposes as described in paragraph 39 below. Cepheid represents and warrants that the Product Specifications accurately represent the Cepheid Instruments and Cepheid Licensed Kits as of the date first set forth above.

Cepheid Licensed Patents

5. Cepheid Licensed Patents means and includes: U.S. Patent Nos. 6,713,297; 6,783,934; 6,911,327; and 6,942,971, plus any and all continuations, divisions, CIPs, foreign counterparts and other patents claiming priority from said patents or the applications upon which such patents are based, including pending U.S. Patent Application No. 11/225,247.

6. "Idaho Technology Products" means a device, instrument or software used, marketed, distributed, sold, leased or otherwise transferred by Idaho Technology that but for the Idaho Technology License below, would infringe (including contributory infringement) or induce infringement of one or more claims of any of the Cepheid Licensed Patents.

7. Grant by Cepheid – Cepheid hereby grants to Idaho Technology and its Affiliates the world-wide, non-exclusive, fully-paid up, perpetual, royalty-free, non-terminable and irrevocable right and license to make, have made, use, sell, offer to sell, have sold, import, and export Idaho Technology Products pursuant to the Cepheid Licensed Patents (the "Idaho Technology License"). Additionally,

Cepheid releases Idaho Technology for any claims of past infringement of the Cepheid Licensed Patents.

Non-blocking

8. It is the intent of the parties to allow Cepheid to exercise its rights and enjoy the practical benefits of the Cepheid License and covenant not to sue, and for Cepheid's distributors to distribute and sell as contemplated by the "have sold" rights under the Cepheid License, unhindered by other intellectual property rights that Idaho Technology has the right to license or sublicense. To that end, but only to that end, and without expanding the scope of the Cepheid License or covenant not to sue, Idaho Technology represents and warrants that it does not, as of the date first set forth above, have the power to license or sublicense any other patents or currently pending patent applications that would materially block Cepheid from the exercise of any claim of the Cepheid License ("Idaho Technology Blocking Patents").

9. Without expanding the scope of the Cepheid License, Idaho Technology hereby grants to Cepheid, on a world-wide, non-exclusive, fully paid-up, royalty-free basis, a further license and covenant-not-to-sue Cepheid for any such Idaho Technology Blocking Patents, but only insofar as not to materially block Cepheid from the exercise of the Cepheid License (the "Cepheid Additional Licenses"). Further, solely with respect to the sale or other distribution of Cepheid Instruments or Cepheid Licensed Kits by Cepheid's distributors under the "have sold" rights of the Cepheid License, Idaho Technology hereby covenants not to sue Cepheid's distributors for infringement of any such Idaho Technology Blocking Patents.

10. Notwithstanding anything to the contrary in this Agreement, Idaho Technology's covenants not to sue and any licenses or other rights granted by Idaho Technology under this Agreement (specifically including the covenants not to sue and licenses or rights under paragraphs 4, 9, 12 and 23), shall not extend to, and expressly exclude any right of Cepheid or any third party to make, have made, use, sell, offer to sell, have sold, import, or export, or to recommend to users or prospective users of any Cepheid Instrument or Cepheid Licensed Kits, any of the following items, services or processes: (a) FRET hybridization probe pairs, (b) SYBR® Green I, (c) LCGreen® I, LCGreen® Plus, (d) SimpleProbes®, (e) high resolution melting using a saturation dye and/or an unlabeled probe (as defined in U.S. Patent Application Publication Nos. 2005/0233335 and 2006/0019253), (f) all claims of U.S. Patent No. 6,174,670 not specifically included in the Idaho Technology Licensed Patents, or (g) any additional nucleic acid detection method wherein the detection means or use thereof is proprietary to Idaho Technology and that is first filed, first sold, first offered for sale, or for which rights are first acquired by Idaho Technology after the Effective Date (the "Excluded Matters").

11. It is the intent of the parties to allow Idaho Technology to exercise the Idaho Technology License, unhindered by other intellectual property rights that Cepheid has the right to license or sublicense. To that end, but only to that end, and without expanding the scope of the Idaho Technology License, Cepheid represents and warrants that it does not have the power to license or sublicense any other patents or currently pending patent applications that would materially block Idaho Technology from the exercise of the Idaho Technology License ("Cepheid Blocking Patents").

12. Without expanding the scope of the Idaho Technology License, Cepheid hereby grants to Idaho Technology on a world-wide, non-exclusive, fully paid-up, royalty-free basis, a further license and covenant-not-to-sue Idaho Technology for any such Cepheid Blocking Patents, but only insofar as not to materially block Idaho Technology from the exercise of any claim of the Idaho Technology License (the "Idaho Technology Additional Licenses"). Further, solely with respect to sales or other distribution by Idaho Technology's distributors under the "have sold" rights of the Idaho Technology License, Cepheid hereby covenants not to sue Idaho Technology's distributors for infringement of any such Cepheid Blocking Patents.

Marking

13. Cepheid covenants and agrees that any Cepheid Instruments and any Cepheid Licensed Kits manufactured, marketed, distributed, sold, imported or exported by or for Cepheid under the Cepheid License or any Cepheid Additional Licenses shall be conspicuously marked, labeled and packaged with the following label licenses (and advertised in a consistent manner) to the extent reasonably practical:

    a. For kits:

    "The purchase of this product includes a limited, non-transferable license under U.S. Patents Nos. 6,787,338; 6,503,720 and 6,303,305, and claims 9, 10, 11, 56, 76, 80 and 107 of U.S. Patent No. 6,174,670, and corresponding claims in patents and patent applications outside the United States, owned by the University of Utah Research Foundation and licensed to Idaho Technology, Inc., to use only this amount of product and only in an instrument marketed, distributed, sold, leased or otherwise transferred using a Cepheid trademark. No right is conveyed, expressly, by implication or estoppel, under any other patent or patent claims owned by the University of Utah Research Foundation or Idaho Technology, Inc. Without limiting the foregoing, no right, title or license is herein granted with respect to the uses that are proprietary to Idaho Technology or the University of Utah Research Foundation of fluorescent double stranded nucleic acid binding dyes , specifically including but not limited to SYBR® Green I, LCGreen® I, or LCGreen® Plus."

b. For instruments:

"The purchase of this instrument includes a limited, non-transferable license under U.S. Patents Nos. 6,787,338; 6,503,720 and 6,303,305, and claims 9, 10, 11, 56, 76, 80 and 107 of U.S. Patent No. 6,174,670, and corresponding claims in patents and patent applications outside the United States, owned by the University of Utah Research Foundation and licensed to Idaho Technology, Inc. No right is conveyed, expressly, by implication or estoppel, under any other patent or patent claims owned by the University of Utah Research Foundation or Idaho Technology, Inc. Without limiting the foregoing, no right, title or license is herein granted with respect to the uses that are proprietary to Idaho Technology or the University of Utah Research Foundation of fluorescent double stranded nucleic acid binding dyes, specifically including but not limited to SYBR® Green I, LCGreen® I, or LCGreen® Plus."

It is understood that Idaho Technology may update the above label licenses from time to time by providing written notice to Cepheid of any changes, *provided* that Cepheid shall be given sufficient time to make appropriate revisions to its labels and marketing materials. Subject to its reservation of rights, remedies and protections of law related to the Excluded Matters, and solely to the extent of the Cepheid License and any Cepheid Additional Licenses, Idaho Technology covenants not to sue Cepheid or its distributors for use of Cepheid Licensed Instruments or Cepheid Licensed Kits manufactured, distributed or sold by Cepheid under the Cepheid License or the Cepheid Additional Licenses, provided such manufacture, distribution and sale and such customer's use of the Cepheid Licensed Instruments or Cepheid Licensed Kits is otherwise in compliance with the terms and conditions of this Agreement and applicable label licenses.

14. Idaho Technology covenants and agrees that any Idaho Technology Products manufactured, marketed, distributed, sold, imported or exported by or for Idaho Technology under the Idaho Technology License or any Idaho Technology Additional Licenses shall be conspicuously marked, labeled and packaged with the following label licenses (and advertised in a consistent manner) to the extent reasonably practical:

"The purchase of this product includes a limited, non-transferable license under U.S. Patents Nos. 6,713,297; 6,783,934; 6,911,327; and 6,942,971, including pending U.S. Patent Application No. 11/225,247, and corresponding claims in patents and patent applications outside the United States, owned by Cepheid, to use this product. No right is conveyed, expressly, by implication or estoppel, under any other patent or patent claims owned by Cepheid.

It is understood that Cepheid may update the above label licenses from time to time by providing written notice to Idaho Technology of any changes, *provided* that Idaho Technology shall be given sufficient time to make appropriate

revisions to its labels and marketing materials. Solely to the extent of the Idaho Technology License and the Idaho Technology Additional Licenses, Cepheid covenants not to sue Idaho Technology or its distributors or customers for use of Idaho Technology Products manufactured, distributed or sold by Idaho Technology under the Idaho Technology License or any Idaho Technology Additional Licenses, provided such manufacture, distribution and sale and such customer's use of the Idaho Technology Products is otherwise in compliance with the terms and conditions of this Agreement and applicable label licenses.

Fields

15. All fields for Cepheid Licensed Instruments, Cepheid Licensed Kits, and Idaho Technology Licensed Products.

Sublicensing and Assignments

16. Either party or its Affiliates may extend the rights licensed to it under the other party's patents to a bona fide joint venture to which a party or any of its Affiliates is a party and to the other joint venture partner(s) in any such joint venture, but only to the extent necessary for research and development. Any such sales of a product of a Cepheid joint venture must be made using Cepheid's trademarks, as described in paragraphs 2 and 3.

17. Either party may transfer the rights licensed to it under the other party's patents to any third party that acquires all or substantially all of a party's business and operations under the Cepheid License or the Idaho Technology License. In such a situation the transferor shall relinquish its license under this Agreement to the transferee.

18. Except as otherwise provided in paragraphs 16 and 17, neither the rights under the Idaho Technology License, the Cepheid License nor this Agreement as a whole, shall be assignable or transferable by either respective party without the prior written permission of the other party, which permission may be withheld at the sole discretion of the other party. Notwithstanding the foregoing, without permission of the other party, and subject to the other provisions of this paragraph, either party may assign or transfer all rights and releases for past infringement, but only to the extent of Cepheid Instruments or Cepheid Licensed Kits, and obligations under this Agreement to a merger partner or third party in connection with such third party's acquisition of all or substantially all of such party's assets.

Releases

19. Idaho Technology Plaintiffs shall, and hereby do, for themselves and for each of their respective predecessors and successors, release and forever discharge Cepheid and its respective past and present subsidiaries, parents, Affiliates,

officers, directors, employees, partners, agents, predecessors, successors, assigns and attorneys, jointly and severally, (collectively, the "Cepheid Releasees") of and from any manner of actions and causes of action, damages and remedies whatsoever in law or in equity, asserted or that could have been asserted in the Utah Litigation, or that could have been asserted with respect to the Idaho Technology Licensed Patents, including without limitation all claims for past (but not future) damages in connection with U.S. Patent Nos. 6,569,627 and 6,174,670. For the avoidance of doubt, these releases do not include, however, any defense to a claim of infringement or a breach of license (whether asserted by way of affirmative defense, counterclaim or declaratory judgment) that may be asserted with respect to any patent or claims thereof.

20. Cepheid shall, and hereby does, for itself and each of its predecessors and successors, release and forever discharge Idaho Technology Plaintiffs and their respective past and present subsidiaries, parents, Affiliates, officers, directors, employees, partners, agents, predecessors, successors, assigns and attorneys, jointly and severally, (collectively, the "Idaho Technology Releasees") of and from any manner of actions and causes of action, damages and remedies whatsoever in law or in equity, asserted or that could have been asserted in the Utah Litigation, or that could have been asserted with respect to the Cepheid Licensed Patents. For the avoidance of doubt, these releases do not include, however, any defense to a claim of infringement or a breach of license (whether asserted by way of affirmative defense, counterclaim or declaratory judgment) that may be asserted with respect to any patent or claims thereof.

21. The Parties hereby waive, with respect to the releases given above, to the extent necessary and consistent with the scope of the releases herein, Cal. Civ. Code section 1542 and any statutory law or common law principle of any state or territory of the United States of similar effect. Section 1542 provides: "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR."

22. None of the releases in paragraphs 4, 7, 19 or 20 above shall apply to claims based on events occurring after the Effective Date hereof. Further, and notwithstanding anything to the contrary in this Agreement, with respect to the releases of claims pursuant to paragraphs 4, 7, 19 or 20 above, such releases (a) shall inure solely to the benefit of Cepheid and Idaho Technology and their respective Affiliates as of the date hereof, as the case may be, (b) shall not inure to the benefit, directly or indirectly, of any third party, including any transferee or sublicense of either party's rights hereunder, and (c) shall not be transferable or assignable, in whole or in part, to any third party, except as permitted in paragraph 18.

Covenant Not to Sue

23. Subject to its reservation of rights, remedies and protections of law related to the Excluded Matters, Idaho Technology covenants not to sue Cepheid or Cepheid's distributors or customers with respect to Cepheid's marketing, distribution, sale, lease or other transfer (directly or through its distributors) of products that (i) are manufactured by Becton, Dickinson & Co.; (ii) are marketed, distributed, sold, leased or otherwise transferred by Cepheid under trademarks owned by Becton, Dickinson; and (iii) except for being marketed, distributed, sold, leased or otherwise transferred under trademarks owned by Becton, Dickinson, would otherwise constitute Cepheid Licensed Kits; and (iv) infringe in any manner upon one or more claims of the Idaho Technology Licensed Patents. However, nothing in this Agreement shall limit Idaho Technology's rights or remedies against Becton, Dickinson or against the manufacturers of other third party products. Furthermore, Cepheid's rights under this Agreement shall not affect any royalty or other obligations of third parties to Idaho Technology.

24. Said covenant not to sue shall run with the Idaho Technology Licensed Patents, such that any acquirer of any of the Idaho Technology Licensed Patents subject to these covenants shall be bound to the same obligations as the parties herein.

Consideration

25. In addition to the licenses, releases and covenants above, Cepheid shall pay the sum of Three Million Three Hundred Fifty Thousand Dollars ($3,350,000) (the "Settlement Payment") to Idaho Technology in accordance with wire transfer instructions to be provided by Idaho Technology prior to the Effective Date, within three (3) business days of the final execution and delivery of this Agreement, which sum is not refundable or subject to any deductions or offsets of any kind or nature. Time is of the essence with respect to payment of the Settlement Payment. The Settlement Payment shall be made in United States currency by wire transfer in accordance with written wire transfer instructions provided by Idaho Technology.

26. Notwithstanding anything to the contrary in this Agreement, the parties covenant and agree that (a) the releases under paragraphs 4 and 19, and the licenses granted under paragraphs 4 and 9, are and shall be expressly subject to and conditioned upon Idaho Technology's timely receipt of the Settlement Payment in full as set forth above; and (b) following any failure or refusal of Cepheid to make the Settlement Payment in full as set forth above, Idaho Technology shall have the right, for itself and on behalf of the Utah Research Foundation, to cancel and rescind the releases under paragraphs 4 and 19, and the licenses granted under paragraphs 4 and 9, effective upon written notice to Cepheid.

27. The parties acknowledge that the Settlement Payment, the releases under paragraphs 4, 7, 19 and 20, and the licenses granted under paragraphs 4, 7, 9 and 12, are not evidence of what a reasonable royalty would be as determined in a suit for infringement of any of the patents covered by this Agreement because, among other reasons, the determination of a reasonable royalty in a patent infringement suit assumes that the relevant patent is valid, enforceable and infringed, while in this case, the payment under this paragraph as well as the releases under paragraphs 4, 7, 19 and 20, and the licenses granted under paragraphs 4, 7, 9 and 12, represent a compromise settlement of disputed issues. Accordingly, the parties acknowledge that the Settlement Payment is specifically based upon many considerations, including but not limited to: the issues raised by the Utah Litigation, the fact that the parties desire to comprise and settle the Utah Litigation without incurring the cost, expense and risk of further litigation, and the fact that the negotiations do not reflect what a willing licensee would pay a willing licensor in an arm's-length transaction with respect to any patent covered by this Agreement and the fact that this Agreement includes cross-licenses as to certain patent rights between Idaho Technology and Cepheid.

28. If the Settlement Payment to Idaho Technology provided for herein should for any reason subsequently be determined to be "voidable" or "avoidable" in whole or in part within the meaning of any state or federal law (collectively "voidable transfers"), including, without limitation, fraudulent conveyances or preferential transfers under the United States Bankruptcy Code or any other federal or state law, and Idaho Technology is required to repay or restore any voidable transfers or the amount or any portion thereof, or upon the advice of Idaho Technology's counsel is advised to do so, then, as to any such amount or property repaid or restored, including all reasonable costs, expenses, and attorneys fees of Idaho Technology related thereto, the entire liability of Cepheid and all rights of Idaho Technology against Cepheid, if any, existing or alleged prior to the date of execution of this Agreement shall automatically be revived, reinstated and restored and shall exist, and the licenses granted hereunder shall be automatically terminated, as though this Agreement had never been executed and the voidable transfers had never been made.

29. No other royalties shall be due now or in the future for Cepheid Licensed Instruments, Cepheid Licensed Kits, or Idaho Technology Licensed Products.

Term:

30. The Cepheid License and the Cepheid Additional Licenses shall expire upon the last to expire of the Idaho Technology Licensed Patents, whereas the Idaho Technology License and the Idaho Technology Additional Licenses shall expire upon the last to expire of the Cepheid Licensed Patents.

Representations and Warranties

31. Nothing contained in this Agreement is or shall be construed as: (a) a warranty or representation by any of the parties to this Agreement as to the validity, enforceability or scope of any of the Idaho Technology Licensed Patents or the Idaho Technology Blocking Patents; (b) a warranty or representation that any manufacture, sale, lease, use or other disposition of products will be free from infringement of any patent rights or other intellectual property rights of any third-party; or (c) an obligation to furnish any technical or other information or know-how.

32. Nothing contained in this Agreement is or shall be construed as: (a) a warranty or representation by any of the parties to this Agreement as to the validity, enforceability or scope of any of the Cepheid Licensed Patents or the Cepheid Blocking Patents; (b) a warranty or representation that any manufacture, sale, lease, use or other disposition of products will be free from infringement of any patent rights or other intellectual property rights of any third-party; or (c) an obligation to furnish any technical or other information or know-how.

33. The Idaho Technology Plaintiffs each represent and warrant that (i) they are, either individually or collectively, the owners or joint owners of the right, title and interest in and to the Idaho Technology Licensed Patents to the extent applied for or issued on or before the date hereof; and (ii) they have the right and power to enter into this Agreement and, have the power to grant the licenses, releases and covenants-not-to-sue set forth herein.

34. Cepheid represents and warrants that (i) it is the owner of the right, title and interest in and to the Cepheid Licensed Patents; and (ii) it has the right and power to enter into this Agreement and, has the power to grant the licenses, releases and covenants-not-to-sue set forth herein.

35. EXCEPT FOR THE EXPRESS WARRANTIES SET FORTH IN THIS AGREEMENT, NO PARTY MAKES ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND OR NATURE, EXPRESS OR IMPLIED, REGARDING ANY MATTER, INCLUDING WITHOUT LIMITATIONS THE IMPLIED WARRANTIES OF MERCHANTABILITY, LACK OF INFRINGEMENT OF THE RIGHTS OF THIRD PARTIES, SUITABILITY AND/OR FITNESS FOR A PARTICULAR USE OR PURPOSE.

Additional Terms and Conditions:

36. The parties agree to promptly dismiss the Utah Litigation with prejudice, each side to bear its own fees and costs, except that such dismissal shall not preclude the future assertion of any claims, defense, or counterclaim solely with respect to any non-licensed patent claims or portions thereof, or any defense reserved under paragraphs 19 and 20.

37. Confidentiality. The terms of this Agreement shall remain confidential. However, the parties each respectively reserves the right to disclose portions of this Agreement under confidentiality to third parties, as required by pre-existing agreements with such third parties, to bona fide potential acquirers, to the parties' respective auditors, accounting and legal professionals, and as otherwise required by law; *provided*, *however*, that (a) the disclosing party shall disclose only the minimum amount of information required by applicable law and (b) any such disclosures shall be subject to, and comply with, paragraph 39 below.

38. Idaho Technology and Cepheid shall issue a joint press release regarding this Agreement, the text of which shall be subject to mutual agreement of Idaho Technology and Cepheid and shall be subject to paragraph 39 below. Except for the information disclosed in the joint press release and the label license requirements set forth in paragraph 13 above, no party shall use the name of the other party or reveal the terms of this Agreement on any publicity or advertising without the prior written approval of the other parties, except that Idaho Technology and Cepheid may use the text of a written statement approved in advance by both Idaho Technology and Cepheid without further approval.

39. Notwithstanding anything to the contrary in this Agreement, (i) any disclosure of the terms of this Agreement shall fairly and accurately describe the settlement as involving a settlement payment to Idaho Technology and related cross-licenses of certain patent rights between Idaho Technology and Cepheid; (ii) each party's "Confidential Information" (as such quoted term is defined below) shall remain subject to that certain Mutual Non-Disclosure Agreement executed between Cepheid and Idaho Technology dated November 16, 2006 (the "NDA"); and (iii) neither party shall use or disclose any such "Confidential Information" except as expressly permitted under the NDA. For purposes of this paragraph 39, the information set forth in documents # 1-4, 7, and 9-21 of the "Product Specifications" shall be deemed Confidential Information under the NDA.

    With respect to the Product Specifications, (i) on or prior to the date hereof, Cepheid shall store or save the Product Specifications in electronic, read-only format on four (4) separate DVD-ROMs, all of which are labeled "Cepheid-Idaho Technology Settlement and Cross-License Agreement: Product Specifications" and dated; and (ii) on or prior to the date hereof, Cepheid shall distribute the DVD-ROMs as follows: one (1) copy to Idaho Technology; one (1) copy to Idaho Technology's outside counsel of record in the Utah Litigation, one (1) copy to Cepheid's outside counsel of record in the Utah Litigation, and one (1) copy to be retained by Cepheid.

40. This settlement is intended solely as a compromise of disputed claims without further litigation. Neither the fact of entry into this Agreement nor the terms hereof nor any acts undertaken pursuant hereto shall constitute an admission or concession of liability or of the validity of any claim or defense asserted in the Utah Litigation, or of any wrongdoing toward any other person, including any breach of contract or violation of any federal, state or local law, regulation or

ordinance. The parties specifically disclaim any liability to each other for any alleged wrongdoing of any kind. Neither the fact of entry into this Agreement nor the terms hereof nor any acts undertaken pursuant hereto shall be offered or admitted in evidence in any legal proceeding other than to enforce rights and obligations relating to this Agreement.

41. Notwithstanding anything to the contrary in this Agreement, no implied licenses are granted hereunder and, except for the license grants expressly set forth in paragraphs 4, 7, 9 and 12 above, no further rights or licenses are granted, by implication, estoppel or otherwise, in or to any patents, patentable subject matter, trademarks, trade secrets, copyrights or copyrightable subject matter or other tangible or intangible rights or interests of any party hereto.

42. All rights and licenses expressly granted under or pursuant to this Agreement, specifically including the Cepheid License, the Idaho Technology License, the Cepheid Additional License and the Idaho Technology Additional License are, and shall otherwise be deemed to be, for purposes of paragraph 365(n) of the Bankruptcy Code, licenses of rights to "intellectual property" as defined under paragraph 101(56) of the Bankruptcy Code. The parties agree that the licensee of such rights under this Agreement shall retain and may fully exercise all of its rights and elections under the Bankruptcy Code, including but not limited to the right to retain all of its rights under this Agreement if the licensor thereof as a debtor-in-possession or a trustee-in-bankruptcy rejects this Agreement.

Miscellaneous.

43. Each of the provisions and agreements herein contained shall be binding upon and inure to the benefit of the parties hereto. This Agreement shall not be assigned by either party, except as otherwise provided in paragraphs 16 and 17 above.

44. This Agreement (and the NDA referenced herein) constitutes the entire understanding of the parties hereto with respect to the subject matter hereof. Except to the extent expressly set forth herein, no prior negotiations, proposals, contracts, arrangements or agreements, whether written or verbal, are made a part of this Agreement. No amendment, modification or alteration of the terms hereof shall be binding unless the same be in writing, dated subsequent to the date hereof and duly approved and executed by each party.

45. Each party agrees that the releases and discharges contained in this Agreement are given for good and adequate consideration, freely and voluntarily and after having consulted with his, her or its counsel concerning the terms of this Agreement. Each party acknowledges that they are represented by legal counsel of their choice and have had the opportunity to consult with legal counsel to the extent desired regarding the meaning and consequences of the terms of this Agreement and understand the same. Each party acknowledges that they have been given adequate time within which to read and review this Agreement and to consider whether or not to execute this Agreement. Each party affirms that they are not

relying on any representations or statements made by the other party which are not specifically included in this Agreement.

46. Nothing contained in this Agreement shall be construed as imposing any obligation to institute any suit or action for infringement of any patents, or to defend any suit or action brought by a third-party which challenges or concerns the validity or enforceability of any patents licensed under this Agreement.

47. This Agreement will not be binding until it has been signed below by all parties.

48. Nothing contained in this Agreement shall be construed as an obligation to file any patent application or to secure any patent or to maintain any patent in force.

49. Except as required by paragraph 13 above, nothing contained in this Agreement shall be construed as conferring any right to use in advertising, publicity, or other promotional activities any name, trade name, trademark or other designation of either party hereto and its subsidiaries (including any contraction, abbreviation or simulation of any of the foregoing).

50. Every provision of this Agreement is intended to be severable. If any term or provision hereof is illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the validity of the remainder of this Agreement.

51. The headings of this Agreement are inserted for convenience and identification only, and are in no way intended to describe, interpret, define or limit the scope, extent or intent of this Agreement or any provision hereof.

52. Nothing in this Agreement shall be construed to place any or all of the parties in a relationship of partners or joint venturers.

53. This Agreement, and the application or interpretation thereof, shall be governed exclusively by its terms and by the laws of the State of Utah (excluding its conflicts of laws principles). Venue for all purposes shall be deemed to lie exclusively within the state and federal courts located in the State of Utah. Each party irrevocably and unconditionally consents to the personal jurisdiction of such courts and waives trial by jury and any and all motions, objections or defenses, whether procedural or substantive, based upon or directly or indirectly asserting lack of in personam jurisdiction, inconvenient forum or the like.

54. This Agreement and any counterpart original thereof may be executed and transmitted by facsimile or by emailed portable document format (".pdf") document. The facsimile and/or .pdf signature shall be valid and acceptable for all purposes as if it were an original. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

55. The waiver by either party, or the failure by either party to claim a breach, of any provision of this Agreement shall not be construed or interpreted as a continuing waiver, a waiver of any subsequent breach or to affect in any way the effectiveness of such provision.

THE UNDERSIGNED hereby execute and deliver this Agreement and make the same effective as of the latest date specified below (the "Effective Date").

IDAHO TECHNOLOGY, INC.

By: /s/ Kirk Ririe

Print name/title: Kirk Ririe
Chief Executive Officer

Date: January 2, 2007

THE UNIVERSITY OF UTAH RESEARCH FOUNDATION

By: /s/ John K. Morris

Print name/title: John K. Morris
Secretary

Date: January 2, 2007

CEPHEID

By: /s/ Joseph H. Smith

Print name/title: Joseph H. Smith
Senior Vice President, General Counsel and Secretary

Date: January 5, 2007

Source: CEPHEID, 10-Q, May 10, 2007

Exhibit 10.2

CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AND THE NON-PUBLIC INFORMATION HAS BEEN FILED WITH THE SECURITIES EXCHANGE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

SUBLICENSE AGREEMENT

This Agreement is entered into by and between

bioMérieux S.A. (hereinafter referred to as "bioMérieux"),
a corporation of France
having its principal place of business at 69280 Marcy l'Etoile, France

and

Cepheid, (hereinafter referred to as "Licensee"),
a corporation of the State of California,
having its principal place of business at 904 Caribbean Drive, Sunnyvale California 94089, USA

WHEREAS, bioMérieux is the exclusive licensee, with the right to sub-license, of certain patents owned by Kainos Laboratories Inc. and Professor Keiichi Hiramatsu relating to the diagnosis of methycillin resistant *Staphylococcus aureus*;

WHEREAS, Licensee wishes to acquire rights under these patents for the purpose of developing, manufacturing, using and selling products for use in connection with its GeneXpert® and SmartCycler® platforms; and

WHEREAS, bioMérieux has the right to grant sub-licenses, and is desirous of sublicensing these patents to Licensee to the extent set forth herein.

NOW THEREFORE, THE PARTIES AGREE AS FOLLOWS:

Article 1. Definitions

1.1 The term "Affiliate" means, as to any party hereto, any entity, that is controlling, is controlled by, or is under common control with that party. "Control" shall mean the power to direct the management and policies of an entity through the direct or indirect ownership of at least 50% of the voting securities, by contract or otherwise.

1.2. The term "Cepheid Platforms" means the GeneXpert® and the SmartCycler® platforms of Licensee that are described in Exhibit 2 hereto, including any improvements brought by

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Licensee during the term hereof that do not substantially modify the technical features and characteristics of these platforms, as these technical features and characteristics are described in Exhibit 2 hereto.

1.3 The term "Collaboration Sepsis Products" means products that are developed or will be developed under the Collaboration Agreement of January 16, 2007 between the Parties that are for testing for sepsis directly from blood and/or for hospital-acquired pneumonia directly from pulmonary samples obtained from bronchial alveolar lavage, BAL, and tracheal aspirates.

1.4 The term "Effective Date" means the last date of signature written below.

1.5 The term "Excluded Products" means products that test for sepsis in blood and/or for hospital-acquired pneumonia in pulmonary samples and that differ by only two or less than two pathogens from the panel of pathogens in the Collaboration Sepsis Products.

1.6. The term "Field" means (i) human in-vitro diagnostics, to the exclusion of Collaboration Sepsis Products and Excluded Products, and (ii) all other diagnostic fields (including veterinary and environment testing).

1.7. The term "Patents" means the patents and patent applications described in the attached **Exhibit 1** hereto, as well as any patents subsequently granted to such applications including any substitutions, divisions, continuations, continuations in part, renewals, reissues, confirmations or registrations, foreign counterparts and extensions of the foregoing.

1.8. The term "Net Sales" means the gross amounts actually invoiced to end-users by Licensee and/or its Affiliates, on sales, or other dispositions for value, of Products, less:

(i) sales, use, value added taxes and/or other excise taxes or duties, if any, and less

(ii) a lump sum fixed at [***] of the invoiced amount(s) (excluding V.A.T., if any) for the Products, which shall be deemed to cover all usual deductions such as trade, quantity and cash discounts, allowances or credits for returned products, insurance, packaging and transport costs

Products may be sold under a reagent rental agreement or analogous agreement, where a purchaser is provided an instrument for use in conjunction with the Product and the costs associated with the placement and use of the instrument are not separately billed, but instead represent some portion of the purchase price of the Product, such that the transaction does not enable determination of Net Sales solely with respect to a Product. In such event, the Net Sales for those units of such a particular Product that is sold on a reagent rental or analogous basis shall be calculated by multiplying for each Product, (i) the average Net Sales price per unit of said Product, during the royalty-paying period in question, to end users on other than a reagent rental or analogous basis, by (ii) the number of such units of said Product sold on a reagent rental or analogous basis during the period for which Net Sales is being calculated.

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In the event that a Licensed Product is testing for several bacteria including Staphylococcus aureus, Net Sales of such Licensed Products for purposes of determining royalties shall be calculated by dividing the Net Sales of such Product by the number of different genus of bacteria that are tested using such Licensed Product, provided however that the maximum number of genus taken into account for the purpose of this clause shall be limited to three (3). For example, the testing for *Staphylococcus aureus*, MRSA and MSSA using one Licensed Product accounts for one genus.

For Products sold by Licensee and/or its Affiliates to distributors, the Net Sales shall mean the gross amount actually invoiced to distributors by Licensee and/or its Affiliates, on sales, or other dispositions for value, of Products, increased by a mark-up of [***] of such gross amount, less the deductions allowed under sub-sections (i) and (ii) of the first paragraph of this Section 1.8 above.

Sales or other transfers of Products to Cepheid's Affiliates or between Cepheid's Affiliates and resold to third parties shall not constitute Net Sales of Products until the Products are sold to third parties who are not Affiliates.

1.9 The term "Products" means products, assays, diagnostic tests and/or kits designed solely for use on any of the Cepheid Platforms, the development, manufacture, use or sale of which would, but for the sublicense granted herein, infringe a Valid Claim of the Patents.

1.10 The term "Third Party License" means any royalty-bearing license agreement with a third party which is not an Affiliate of Licensee, entered into by Licensee with said third party, in the absence of which the manufacture, use, import or sale of Products by Licensee would constitute an infringement of the relevant technology, if patented, or a misappropriation, if unpatented.

1.11 The term "Valid Claim" means a claim of any unexpired patent or a claim pending in a patent application within the Patents which has not been withdrawn, cancelled, lapsed or disclaimed, or held permanently revoked, invalid or unenforceable by a court, government body or other tribunal of competent jurisdiction in a decision from which an appeal has not been or cannot be made.

Article 2. Licensing of Patents

2.1 bioMérieux hereby grants to Licensee a personal, non-transferable (except pursuant to Section 9.2), irrevocable, non-exclusive, worldwide sublicense under the Patents, for the sole purpose of developing, manufacturing, having manufactured, using, selling, offering for sale, importing and/or having sold Products under Licensee's own and sole label in the Field for the duration of this Agreement.

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2.2 The sublicense granted to Licensee under Section 2.1 does not include the right for Licensee to grant sublicenses, except that Licensee may grant sublicenses to its Affiliates who agree to be bound by the terms hereof. Licensee shall remain liable to bioMérieux for any breach hereof by any of its Affiliates.

2.3 Licensee's right to have the Products manufactured by a third party manufacturer is granted provided that the appointed third party manufacturer shall in no event be granted the right to also sell the Products.

2.4 The requirement of the use of Licensee's own and sole label with respect to the Products does not preclude Licensee from adding the label of other licensors if required by the relevant licenses nor the label of a distributor provided that such other labels are less prominent than Licensee's own label, and provided that such labelling shall not permit the equivalent of an OEM sublicense.

2.5 Licensee hereby accepts the sublicense granted to it hereunder at its own risks and undertakes to use its best efforts to develop, market and sell the Products in the whole world.

2.6 Licensee shall promptly inform bioMérieux of any improvements, whether patentable or not, on the technology covered by the Patents which it may at any time during this Agreement own, possess or control and Licensee shall offer to bioMérieux a worldwide license to develop, make, have made, use, sell, offer for sale, import and have sold any products using or incorporating such improvements. Such offer shall be made in writing, setting out the major terms, which shall be reasonable and commercially viable and be subsequently negotiated in good faith.

2.7 Licensee shall credit bioMérieux as the licensor of Patents in its promotional materials, including for example advertisements, package inserts and data sheets, intended for distribution to third parties as follows: "This product is sold under license from bioMérieux under US patent ....." or any such equivalent mutually agreed upon reference. Such reference shall be reasonably prominent and will be directly associated with information on the Product.

2.8 No rights are granted to Licensee outside the Field.

Article 3. Financial Terms, Records and Accounting

3.1. In consideration of the rights granted under Article 2, Licensee shall pay bioMérieux on the Effective Date a non-refundable, non deductible lump sum payment of three million euros (€ 3,000,000) which payment shall not act as prepaid royalties creditable toward any running royalties due under this Agreement.

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3.2. Furthermore, Licensee shall pay bioMérieux, as from the date of first commercial sale of a Product, a running royalty :

- of [***] of the Net Sales of Products designed to be used in connection with the SmartCycler® platform; and
- of the higher of [***] of the Net Sales and [***] per GeneXpert® MRSA cartridge, for Products designed to be used in connection with the GeneXpert® platform.

3.3. In the event Licensee pays royalties under any Third Party License and provided that Licensee provides to bioMérieux written evidence of the existence and applicability of such Third Party License(s), the royalty rate under Section 3.2 shall be reduced by [***] of the royalty rate Licensee pays under such Third Party License with respect to the Products.

However, notwithstanding the foregoing, in no event shall the royalty rate under this Agreement fall below :

- [***] of Net Sales of Products designed to be used in connection with the SmartCycler® platform and
- for Products designed to be used in connection with the GeneXpert® platform, the higher of [***] of Net Sales and (ii) [***] per GeneXpert® MRSA cartridge.

3.4. Licensee's customers will have no royalty obligations to bioMérieux with respect to Products for which royalties are paid by Licensee pursuant to this Article 3.

3.5. Licensee agrees to keep and cause its Affiliates to keep accurate records and books of account in accordance with good accounting practice, showing the information required to permit calculation of Net Sales and royalties under this Article and the verification of said calculation. These books and records shall be preserved for at least six (6) years from the date of the royalty payments to which they pertain.

3.6. On or before the forty-fifth (45th) day of each calendar quarter during the term hereof, Licensee shall prepare and send to bioMérieux royalty reports for the previous calendar quarter. Said reports shall indicate quantity sold, as well as total sales and Net Sales, applicable rate reduction pursuant to Section 3.3, per Product and per country, under this Agreement for the previous calendar quarter and shall show the amount of royalty due with sufficient information to enable verification by bioMérieux. Sales to end-users and sales to distributors shall be clearly segregated in each report.

Licensee shall include payment of the amount of royalties shown to be due with such report. Reports shall be sent by Licensee to:

bioMérieux Business Development Department,
69280 Marcy l'Etoile,
France,
Fax n° +33 478 87 75 12.

3.7. Upon thirty (30) days prior written notice and not more than once per calendar year, Licensee agrees to permit a certified public accountant appointed by bioMérieux and reasonably acceptable to Licensee to enter upon the premises of Licensee and/or its

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Affiliates (but only if such Affiliates have records pertinent to the calculation of royalties owed under this Agreement), during normal business hours, in order to inspect files and records directly pertaining to Net Sales and royalties owed under this Agreement for the purposes of verifying the accuracy of royalty amounts reported under this Agreement. The audit period shall only include quarters for which Licensee has closed its financial reporting records, in accordance with governmental requirements. Once examined, the royalty reports and payments shall be closed for that period. The certified public accountant must execute a confidentiality agreement reasonably acceptable to Licensee prior to the commencement of any audit.. The results of such audit will be the confidential information of Licensee; however, the certified public accountant may provide the results of the audit to bioMérieux. In the event any audit results in a change upward in any royalty payment of five percent (5%) or more for the audited period, Licensee shall pay the costs of such audit. Otherwise, such audit shall be at bioMérieux's expenses. In any case, Licensee shall without delay pay to bioMérieux any underpayment of royalties, irrespective of the percentage or amount of such underpayment.

3.8. Payment of all royalties hereunder shall be made in EUROs at the middle rate of exchange existing on the last day of the quarter to which the payment applies, as published in the Wall Street Journal (European Edition). On overdue payments, an annual interest rate will be paid at the lesser of ten percent (10%) per annum or the maximum interest rate then permissible under French law. Any such interest calculation would only be applied to each day the payment is past due as measured from the date of the check or wire transfer, i.e., 1/365 of the interest rate applied to the balance past due for each day past due.

3.9. If laws or regulations of any government require withholding of income taxes or other taxes as may be imposed with regard to any payments due bioMérieux under this Section 3, Licensee shall make such withholding payments as may be required and shall subtract such withholding payments from such payments due bioMérieux. The Parties shall cooperate and sign all documents aiming at claiming exemption from or reducing such withholding tax under any applicable double taxation or similar treaty. Licensee shall submit proper evidence of payment or other required documentation of such taxes to bioMérieux.

Article 4. Duration

4.1. This Agreement shall become effective on the Effective Date and shall, without prejudice to an earlier termination pursuant to this Agreement, remain in effect until the last to expire of the Patents.

4.2. In the event either party breaches this Agreement, the other party may, in addition to all other rights and remedies it may have, terminate this Agreement by written notice. Such termination shall become effective on the date set forth in the notice of termination, but in

no event shall it be earlier than sixty (60) days from the date of mailing thereof and shall have no effect if the breach has been cured within the said period of notice.

4.3. If one of the parties hereto becomes insolvent or makes an assignment for the benefit of creditors or if proceedings in voluntary or involuntary bankruptcy are instituted on behalf of or against said party or a receiver or trustee of said party's property is appointed, this Agreement may be terminated with immediate effect by written notice by the other party without any notice period.

4.4. bioMérieux may terminate this Agreement in the event that Licensee, without the prior written consent of bioMérieux, assigns or transfers this Agreement in violation of Article 9.

4.5. bioMérieux may terminate this Agreement with immediate effect in the event that Licensee directly or through a surrogate challenges the validity of any of the Patents or provides assistance to a third party knowing that such assistance will be used to challenge such validity.

4.6 Upon the expiration or sooner termination of this Agreement, any of the Products in inventory and not sold shall be deemed sold on the day such expiration or termination becomes effective and royalty shall be due as per Article 3. Licensee shall then be entitled to sell such Products.

4.7. The termination of this Agreement shall not relieve Licensee from its obligation to pay bioMérieux all amounts, including royalties, that shall have accrued up to the effective date of termination.

4.8 Upon termination of this Agreement and subject to Section 4.6, all licences and rights granted to Licensee hereunder shall terminate.

Article 5. Entirety Clause — Modifications

5.1 This Agreement sets forth the entire agreement between the parties hereto relating to the subject matter of this Agreement and supersedes all prior agreements pertaining to said subject matter.

5.2 This Agreement may be modified only by a written document signed by the authorised representatives of each party.

Article 6. Warranty

6.1. bioMérieux represents and warrants to Licensee that it has the full right and power to grant the sublicense to Licensee as set forth in this Agreement.

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6.2. Except as specifically set forth in Section 6.1. herein, BIOMERIEUX MAKES NO REPRESENTATIONS AND GIVES NO WARRANTIES, EITHER EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE, INCLUDING, BUT NOT LIMITED TO, IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

In particular, with no limitation, nothing in this Agreement will be construed as :

(i) A warranty or representation by bioMérieux as to the validity or scope of the Patents;

(ii) A warranty or representation by bioMérieux that practice under the Patents is or will be free from infringement of any third parties' patents or other intellectual property rights;

(iii) Except as contemplated under Section 2.7, conferring the right to use in advertising, publicity, or otherwise any trademark, trade name, or any contraction, abbreviation, simulation, or adaptation thereof, of bioMérieux; or

(iv) Conferring by implication, estoppel, or otherwise any license or rights under any patents of bioMérieux other than the Patents.

6.3. In the event Licensee becomes aware of infringement of the Patents by a third party, it will immediately notify bioMérieux thereof.

bioMérieux intends to use such reasonable efforts, as it in its sole discretion determines, to pursue infringers and enforce its rights under the Patents.

Licensee, at bioMérieux's expense and request, shall render all reasonable assistance and cooperation in that regard. Any recoveries resulting from such action by bioMérieux shall be bioMérieux's property.

Article 7. Applicable Law and Dispute Resolution

7.1. This Agreement shall be deemed to have been made in and shall be construed in accordance with the laws of France, for all matters other than scope and validity of any patents, as to which the laws of the particular country where such patents are in dispute shall apply.

7.2. The parties shall attempt in good faith to resolve promptly any dispute arising out of or relating to this Agreement by negotiation. If the matter can not be resolved in the normal course of business, any interested party shall give the other party written notice of any

such dispute not resolved, after which the dispute shall be referred to senior executives of both parties, who shall likewise attempt to resolve the dispute.

7.3. If the dispute has not been resolved by negotiation within forty-five (45) days of the disputing party's written notice, or if the parties fail to meet within twenty (20) days as from such notice, the parties shall endeavour to settle the dispute by mediation under the supervision of and in accordance with the CPR Model European Mediation Procedure.

Unless otherwise agreed, both parties or each individual party may request the CPR to appoint an independent mediator. The language of mediation shall be English and the seat of mediation shall be agreed upon by both parties and, in the event parties do not timely agree, the seat will be determined within France by the mediator.

7.4. If the dispute has not been resolved by non-binding means as provided in Section 7.3 above within ninety (90) days of the initiation of such procedure or if one of the parties has informed the other party in writing that it is not willing to start or proceed with the mediation as contemplated in Section 7.3. hereof, the dispute shall be finally and exclusively settled by arbitration in Paris, by a single independent arbitrator appointed and acting in accordance with the Rules of Arbitration of the International Chamber of Commerce. The language of the arbitration shall be English. The arbitration shall be in lieu of any other remedy and the award shall be final, binding and enforceable by any court having jurisdiction for that purpose.

7.5. This Article shall, however, not be construed to limit or to preclude either party from bringing any action in any court of competent jurisdiction for injunctive or other provisional relief as necessary or appropriate.

Article 8. Miscellaneous provisions

8.1. All notices which shall or may be given hereunder shall be in writing in English and shall be made by prepaid registered mail or express courier or fax (confirmed by registered mail or express courier) addressed to the recipient at the addresses herein stated, or at such other address as a party may from time to time designate:

bioMérieux SA
69280 Marcy l'Etoile
France
Attn.: Corporate General Counsel
Fax: 33.4.78.87.53.70

and

Cepheid Inc.
904 Caribbean Drive,

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Sunnyvale California 94089, USA
Attn.: General Counsel
Fax: (408) 400-8305

8.2. The invalidity or unenforceability of any terms of this Agreement under any applicable law shall not affect the validity of its remaining terms. In such case, the parties shall agree without delay on a valid substitute term which shall approximate as closely as possible the purpose of the invalid or unenforceable term.

8.3. Licensee warrants that its' Affiliates that have been granted sublicenses under Section 2.2 will be bound by the terms and conditions of this Agreement and will assume the rights and obligations set out herein.

8.4. A failure by either Party to exercise or enforce any right conferred on it by this Agreement shall not be considered a waiver of such right nor operate so as to preclude the exercise or enforcement thereof at any subsequent time or on any subsequent occasion.

Article 9. Assignment

9.1 bioMérieux shall have the right to assign this Agreement to, or delegate its obligations hereunder to be performed by any successor, Affiliate of bioMérieux or third party. Any such successor shall be bound by all terms of this Agreement.

9.2 This Agreement is not assignable by Licensee without the prior written consent of bioMérieux, except that no such consent is required to assign this agreement to the acquirer of all or substantially all of Licensee's assets to which this Agreement pertains. Any such successor shall be bound by all terms of this Agreement.

Article 10. Hold harmless

Licensee shall defend, indemnify and hold harmless bioMérieux from and against any and all claims, demands, damages, losses and expenses, including attorney's fees to the extent arising from or in connection with third party claims, suits, actions, demands or judgments, relating to the development, manufacture, use or sale of the Products.

Article 11. Limitation of Liability

In no event will a party's aggregate liability to the other party for all damages arising under this Agreement exceed Fifteen Million US dollars.

EXCEPT AS SPECIFICALLY SET FORTH HEREIN, IN NO EVENT WILL EITHER PARTY HAVE ANY OBLIGATION OR LIABILITY TO THE OTHER PARTY ARISING FROM TORT OR CONTRACT FOR LOSS OF BUSINESS OPPORTUNITY OR PROFIT, OR FOR

SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES, UNLESS SUFFERED AS A RESULT OF ITS WILFUL MISCONDUCT.

Article 12. Confidentiality

Each party to this Agreement agrees that any information obtained by it from the other party pursuant to this Agreement, including the major terms of this Agreement, shall be kept in the strictest confidence and shall only be used for the proper performance of this Agreement. Confidential information of the disclosing party may not be disclosed by the recipient to any third party except to employees and agents of the recipient that have a need to know such confidential information to perform recipient's obligations or exercise recipient's rights under this Agreement and who have executed a written confidentiality agreement or are bound by confidentiality obligations at least as protective of disclosing party's confidential information as the terms of this Agreement. A party's obligations with respect to confidential information shall not apply to information which:

a) is in or becomes part of the public domain otherwise than by breach of this Agreement; or

b) the recipient can demonstrate was in its possession at the date of receipt thereof; or

c) is legally received by the recipient from a third party having the legal right to transmit the same; or

d) is independently developed by the recipient or any of its Affiliates without the benefit of any disclosure by the disclosing party.

In the event the recipient is required by judicial or administrative process to disclose confidential information of the other party, it shall promptly notify said party thereof so that said party may oppose such process or reduce the scope of such disclosure.

bioMérieux shall be entitled to disclose the terms of this Agreement and the royalty reports received from Licensee to its licensors of the Patents under confidentiality terms substantially similar to those contained herein.

The foregoing obligation shall cease five (5) years after termination or expiration of this Agreement.

Neither party shall issue any press release or other publicity materials, or make any external presentations with respect to the existence, terms and conditions of this Agreement without the prior written consent of the other party which shall not be unreasonably withheld. Notwithstanding the foregoing obligations of confidentiality in this Article 11, each party may determine in its respective reasonable discretion to file this Agreement with the Security and Exchange Commission or any foreign equivalent (*e.g.*, in a Quarterly Report on Form 10-Q or

Annual Report on Form 10-K or any foreign equivalent) or as otherwise required by law, regulation or the rules of any securities exchange on which such party's securities are traded. The filing party shall seek confidential treatment for at least the financial terms hereof in connection with any such filing, subject to applicable law, regulation or rule of any applicable securities exchange, and shall so notify the other sufficiently in advance to enable the other party to comment and advise on the proposed filing.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate by their duly authorized officers.

For and on behalf of
bioMérieux S.A.
Date: January 16, 2007

/s/ Stéphane Bancel
Name: Stéphane Bancel
Title: Directeur Général Délégué

For and on behalf of
Cepheid
Date: January 16, 2007

/s/ Joseph H. Smith
Name: Joseph H. Smith
Title: Senior Vice President, General Counsel

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Exhibit 1
Patents

Docket Number	00166
Title	Diagnostic method
Inventor(s)	HIRAMATSU Keiichi ITO Teruyo AWAYA Akira OHNO Hiroie HAYASHI Tsukasa
Internal Reference	MRSA
Current Owner	Kainos Laboratories Inc.
Applicant	Kainos Laboratories Inc.
First Filing Date	23/02/1996
Memo Fields	Disclosed is a specific identification method of an MRSA and MRC-NS, which is speedy, simple and reliable. Specifically, the present invention provides a diagnostic method of an MRSA or MRC-NS, which comprises performing a reaction with a sample by making combined use of a part of a mecDNA, which is an integrated adventitious DNA existing on a chromosome of the MRSA or MRC-NSA and carrying an mecA gene thereon, and a part of a nucleotide sequence of a chromosomal DNA surrounding the integrated DNA; and also a diagnostic method of an MRSA or MRC-NS by PCR, LCR or hybridization, which comprises performing a reaction with a sample by using a nucleotide sequence of a chromosomal DNA surrounding an integrated site of a mecDNA in a chromosome of an MSSA or MSC-NS, wherein said method makes use of an occurence of a negative reaction when said sample contains a mecDNA integrated therein.

Country	*Application Number*	*Application Date*	*Publication Number*	*Publication Date*	*Patent Number*	*Grant Date*	*Expiration Date*	*Status*
AU	AU1810997	21/02/1997	WO9731125	28/08/1997	AU696462	10/09/1998	21/02/2017	Granted
CA	CA2218476	21/02/1997	WO9731125	28/08/1997	CA2218476	18/06/2002	21/02/2017	Granted
DE	EP97903593.8	21/02/1997	WO9731125	28/08/1997	EP/DE0887424	11/01/2006	21/02/2017	Granted
EP	EP97903593.8	21/02/1997	WO9731125	28/08/1997	EP0887424	11/01/2006	21/02/2017	Inactive
FR	EP97903593.8	21/02/1997	WO9731125	28/08/1997	EP/FR0887424	11/01/2006	21/02/2017	Granted
GB	EP97903593.8	21/02/1997	WO9731125	28/08/1997	EP/GB0887424	11/01/2006	21/02/2017	Granted
JP	JP6037396	23/02/1996	WO9731125	28/08/1997				Filed
US	US08945810	21/02/1997	WO9731125	28/08/1997	US6156507	05/12/2000	21/02/2017	Granted
WO	PCT/JP97/00487	21/02/1997	WO9731125	28/08/1997				Inactive

***** CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AND THE NON-PUBLIC INFORMATION HAS BEEN FILED WITH THE SECURITIES EXCHANGE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.**

Exhibit 2
Description of the Cepheid Platforms

Cepheid Platforms are of two types: those with automated sample preparation, as in the Cepheid GeneXpert® instrument, and those without automated sample preparation, as in the Cepheid SmartCyler® instrument. Each of these platforms is a thermal cycler that has the following characteristics:

a. It is primarily intended for use in the automated performance of the polymerase chain reaction (PCR) process;

b. It has one or more core modules, each one of which is a self-contained thermal cycler;

c. Each core module can cycle between two or more temperatures; however, each core module can be programmed to follow essentially any temperature profile of biological relevance;

d. Each core module is configured for receiving a single reaction vessel, and the platform is programmable so that the temperature profile for thermal cycling each reaction vessel can be controlled independently of any other reaction vessel by independently controlling each core module, regardless of whether the reactions are thermal cycled simultaneously, sequentially or otherwise;

e. Each core module in its base configuration has an integrated reading system for detecting signals from a reaction vessel inserted into the core module. However, in an optional configuration, the platforms have a separate detection system for reading signals from a reaction vessel that contains a micro-array of nucleic acid reaction locations, wherein the reaction vessel and micro-array are arranged such that each location in the micro-array is exposed to the same, common, reagent environment in the reaction vessel; and

f. Each platform is marketed, distributed, sold, leased or otherwise transferred using trademarks owned or controlled by Cepheid.

Source: CEPHEID, 10-Q, May 10, 2007

Exhibit 31.1

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

I, John L. Bishop, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cepheid;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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 the 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 financing reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2007

/s/ JOHN L. BISHOP
John L. Bishop
Chief Executive Officer

Source: CEPHEID, 10-Q, May 10, 2007

Exhibit 31.2

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

I, John R. Sluis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cepheid;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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 the 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 financing reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2007

/s/ JOHN R. SLUIS
John R. Sluis
Senior Vice President of Finance and
Chief Financial Officer

Source: CEPHEID, 10-Q, May 10, 2007

Exhibit 32.1

Certification of Chief Executive Officer Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Cepheid (the Company) on Form 10-Q for the quarter ended March 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, John L. Bishop, as Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

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

Date: May 10, 2007

/s/ JOHN L. BISHOP
John L. Bishop
Chief Executive Officer

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.

Source: CEPHEID, 10-Q, May 10, 2007

Exhibit 32.2

Certification of Chief Financial Officer Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Cepheid (the Company) on Form 10-Q for the quarter ended March 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, John L. Bishop, as Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

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

Date: May 10, 2007

/s/ JOHN R. SLUIS
John R. Sluis
Senior Vice President of Finance and
Chief Financial Officer

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.