FORM 10-K

CEPHEID - CPHD

Filed: February 26, 2009 (period: December 31, 2008)

Annual report which provides a comprehensive overview of the company for the past year

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PART IV

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

or

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

For the transition period from to

Commission file number 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 Number)***
904 Caribbean Drive, Sunnyvale, California	**94089-1189**
(Address of Principal Executive Office)	***(Zip Code)***

(408) 541-4191
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, no par value and the associated Stock Purchase Rights
(Title of Class)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. ☐

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

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-accelerated Filer	☐ **(Do not check if a Smaller Reporting Company)**	Smaller Reporting Company	☐

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

As of June 30, 2008, the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $1,524,421,165 based on the closing sale price for the registrant's common stock on the NASDAQ Global Market on that date of $28.12 per share. For purposes of determining this number, all executive officers and directors of the registrant are considered to be affiliates of the registrant, as well as individual shareholders holding more than 10% of the registrant's outstanding common stock. This number is provided only for the purpose of this report on Form 10-K and does not represent an admission by either the registrant or any such person as to the status of such person.

As of February 10, 2009 there were 57,903,048 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document Description	10-K Part
Portions of the Proxy Statement for the Annual Meeting of Stockholders (the "Proxy Statement") to be held on April 29, 2009, and to be filed pursuant to Regulation 14A within 120 days after registrant's fiscal year ended December 31, 2008 are incorporated by reference into Part III of this Report.	III

2008 ANNUAL REPORT ON FORM 10-K

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FORWARD-LOOKING STATEMENTS

The following discussion of our business, and other parts of this report, contain 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 are based upon current expectations that 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 uncertain impact of the significant global economic downturn on our target markets and our business; continued market acceptance of our healthcare associated infection products; changes in the protocols, best practices or level of testing for healthcare associated infections; development and manufacturing problems; the need for additional intellectual property licenses for new tests and other products and the terms of such licenses; our ability to successfully sell additional products in the Clinical market; 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 market; the level of testing at existing clinical customer sites; the mix of products sold, which can affect gross margins; our reliance on distributors to market, sell and support our products; the occurrence of unforeseen expenditures, asset impairments, acquisitions or other transactions; our ability to integrate the businesses, technologies, operations and personnel of acquired companies; the scope and timing of actual United States Postal Service ("USPS") funding of the Biohazard Detection System ("BDS") in its current configuration; the rate of environmental testing using the BDS conducted by the USPS, which will affect the amount of consumable products sold; our success in increasing our direct sales and the effectiveness of our sales personnel; the impact of competitive products and pricing; our ability to manage geographically-dispersed operations; our ability to continue to realize manufacturing efficiencies, which are an important factor in improving gross margins; underlying market conditions worldwide; and the other risks set forth under "Risk Factors" and elsewhere in this report. 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.

PART I

ITEM 1. BUSINESS

OVERVIEW

We are a broad-based molecular diagnostics company that develops, manufactures, and markets fully-integrated systems for testing in the Clinical market, as well as for application in our legacy Biothreat and Industrial markets. Our systems enable rapid, sophisticated molecular testing for organisms and genetic-based diseases by automating otherwise complex manual laboratory procedures. Molecular testing historically has involved 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 associated specific infectious disease tests on the market in the United States. Our efforts are principally focused on those Clinical applications where rapid and accurate testing is particularly important, such as identifying infectious diseases and cancer.

Our two principal systems are the GeneXpert and SmartCycler systems. The GeneXpert system, our primary offering in the Clinical market, 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 emergency departments and intensive care units within hospitals and doctors' offices. The GeneXpert system is also our main system in the Biothreat market. The SmartCycler system integrates DNA amplification and detection to allow rapid analysis of a sample.

The GeneXpert system represents a paradigm shift in molecular diagnostics in terms of ease-of-use and flexibility, 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 broad and expanding menu of tests and reagents for use on our systems. Our reagents and tests are marketed along with our systems on a worldwide basis.

OUR STRATEGY

Our strategy is to become the leading supplier of integrated systems and tests for molecular diagnostics. Key elements of our strategy to achieve this objective include:

- *Provide a fully-integrated molecular testing solution to the Clinical market.* We believe our GeneXpert system will continue to significantly expand our presence in the Clinical market with its ease of use, flexibility, and rapid and accurate results. We believe this system is currently the only closed, self-contained, fully-integrated and automated system for molecular testing commercially available. The system is currently commercially available in a variety of configurations ranging from 1 to 16 individual test modules, while our GeneXpert Infinity System, which will house up to 48 individual modules and offer both on-demand and batch test capability, is currently in the beta testing phase. To our knowledge, the system is also the only currently available system to offer true random access and on demand test capability for molecular testing.

- *Continue to develop and market new tests.* We plan to capitalize on our strengths in nucleic acid chemistry and molecular biology to continue to internally develop new tests for our systems. In addition, in order to more rapidly expand our test pipeline, we work with strategic partners and major academic institutions and commercial organizations to develop and validate additional tests.

- *Obtain additional target rights.* We expect to continue to expand our collaborations with academic institutions and commercial organizations to develop and obtain target rights to various infectious disease and cancer targets. In addition, we will be focusing key business development activities on identifying infectious disease and cancer targets held by academic institutions or commercial organizations for potential license or acquisition.

- *Enhance international platform.* Internationally, our primary focus is the European Clinical market. However, we also have and will continue to develop programs for other international markets. Our European sales and marketing operations are headquartered in France. In 2008, we implemented a direct sales force in the United Kingdom ("UK") and we sold through distributors in other international markets. We will continue to expand our distribution capability in Europe on both a direct and distributor basis.

- *Continue to maintain applications in the Industrial and Biothreat markets.* We currently sell products into the Industrial and Biothreat markets and expect to continue our offerings in these markets.

PRODUCTS

Our product portfolio consists of tests, reagents and systems for the Clinical, Industrial, and Biothreat markets. Our two main systems are the GeneXpert system, which incorporates sample preparation, nucleic acid extraction and purification, DNA amplification, and detection into a small self-contained cartridge providing rapid "on-demand" molecular testing 24/7, offering medically relevant results when and where they are needed most, and the SmartCycler, which is a system that integrates DNA amplification and detection for rapid batch or random access analysis in "real-time".

In the Clinical market, we market tests for both the GeneXpert and the SmartCycler systems in the areas of healthcare associated infections, critical infectious disease, immuno-compromised transplantation, women's health, and oncology. These tests include United States Food and Drug Administration ("FDA") cleared products, such as in *vitro medical devices* ("IVDs"), CE Marked products ("CE IVD"), Analyte Specific Reagents ("ASRs"), and Research Use Only ("RUO") tests.

Prior to September 2008, the menu of tests for our GeneXpert system in the United States included our Xpert MRSA surveillance test in addition to our diagnostic tests, Xpert GBS for Group B Streptococcus and Xpert EV for detection of Enterovirus.

In September and October 2008, we received FDA clearance to market two additional diagnostic tests: our Xpert MRSA/SA-SSTI (Skin and Soft Tissue Infection) and Xpert MRSA/SA-BC (Blood Cultures) tests, respectively, in the United States. Both tests have been categorized as "moderate complexity" under the Clinical Laboratory Improvement Amendments, which enables the tests to be used inside and outside of the traditional laboratory setting in approximately 6,000 hospitals throughout the U.S.. The tests are designed to enable simultaneous rapid detection of two leading causes of hospital and community acquired infections, methicillin-resistant *Staphylococcus aureus* ("MRSA") and *Staphylococcus aureus*, directly from soft tissue infection samples and blood cultures, respectively.

During 2009, we expect to receive FDA clearance for our tests to detect Clostridium difficile ("C. difficile"), the VanA and VanB resistant genes of vancomycin-resistant enterococci ("vanA/vanB"), a test for genetic polymorphisms in clotting factors II and V that are widely-used to predict risk of thrombosis (blood clots), and an MRSA/SA nasal application for pre-surgical testing. In the European market, we expect to CE mark tests for tuberculosis ("TB") and MRSA/SA nasal. Our C. difficile and vanA/van B tests were released as CE marked products in Europe in 2008. We also expect to launch the GeneXpert Infinity System for high volume test requirements in 2009. We are also actively working to update specific current products to reduce time to result and moving to having liquid in addition to dry reagents in the test cartridge thereby requiring only the addition of the patient sample.

In the Industrial market, we sell our SmartCycler system along with general use PCR reagents and reaction tubes.

In the Biothreat market, the GeneXpert system is the main platform. GeneXpert modules have been integrated into the Biohazard Detection Systems ("BDS"), purchased by the United States Postal Service ("USPS"). We have tests currently available for anthrax, pestis, and tullarensis.

RESEARCH AND DEVELOPMENT

The principal objective of our research and development program is to develop high-value clinical diagnostic products for the GeneXpert system. We focus our efforts on four main areas: a) assay development efforts to design, optimize, and produce specific tests that leverage the systems and chemistry we have developed, b) target discovery research to identify novel micro RNA targets to be used in the development of future assays, c) chemistry research in our Bothell, Washington facility to develop innovative and proprietary methods to design and synthesize oligonucleotide primers, probes and dyes to optimize the speed, performance and ease-of-use of our assays and d) engineering efforts to extend the multiplexing capabilities of our systems and to develop new low and high throughput systems.

SALES

We sell our products in the Clinical, Industrial and Biothreat markets on both a direct basis and through distributors. In the United States ("U.S.") Clinical market, we primarily utilize a direct sales approach, which we also implemented in the UK during 2008.

Distribution and collaboration arrangements

bioMerieux In December 2003, we entered into an agreement for a strategic commercial relationship with bioMerieux, Inc. ("bioMerieux") for bioMerieux to develop DNA testing products using its proprietary Nucleic Acid Sequence-Based Amplification ("NASBA") technology to be run on systems employing our GeneXpert and SmartCycler systems. To date, bioMerieux has not commercialized a product based on our technology. In January 2007, we entered into a program with bioMerieux for the development, production and marketing of a line of sepsis products, based upon our real-time PCR technologies. To date, no commercialized product has been jointly developed.

Applied Biosystems Group. In October 2002, we entered into a collaboration agreement with Applied Biosystems Group ("ABI") to develop reagents for use in the USPS BDS program, which was developed by the consortium led by Northrop Grumman Corporation. Under the agreement, reagents are manufactured by ABI for packaging by us into our GeneXpert test cartridges and sold by us for use in the BDS. This agreement calls for the computed gross margin on sales of anthrax cartridges for the USPS BDS program to be equally shared between the two parties. In November 2008, ABI merged with Invitrogen Corporation to create Life Technologies Corporation.

USPS Program. In 2003, a Northrop Grumman-led consortium that included Cepheid and other subcontractors developed the BDS for the USPS. This consortium was awarded a production contract, and installations were completed at the end of 2005. In August 2007, we entered into a five-year master purchase order with Northrop Grumman for the purchase of up to $200 million in anthrax test cartridges and associated materials used in BDS. The agreement covers the USPS fiscal years of 2007 through 2011. Under the terms of the agreement, the purchase quantity of anthrax tests will be determined on an annual basis, based on the USPS fiscal year of October 1 through September 30. We have received notice that expected test purchases for the USPS in fiscal 2009 will be approximately one million cartridges.

Foundation for Innovative New Diagnostics. In May 2006, we entered into an agreement with the Foundation for Innovative New Diagnostics ("FIND") to develop a simple, rapid test that can detect mycobactrium tuberculosis and associated rifampin resistance from human sputum samples. Under the agreement, we were responsible for the development of a 6-color GeneXpert system to accomplish such a test and the development of an enhanced manufacturing line for the manufacture of test cartridges used in the test. FIND has been reimbursing us at agreed upon amounts. The term of the development portion of the agreement was 30 months, which was subsequently extended an additional five months. The supply term of the agreement is for twelve years, unless terminated by either party in accordance with relevant provisions of the agreement.

MANUFACTURING

Our facilities and manufacturing processes are designed to comply with the quality standard set by the International Organization for Standardization and the FDA's Quality System Regulations, enabling us to market our systems in the Clinical, Industrial and Biothreat testing markets worldwide. In our manufacturing facilities, we assemble our systems and produce reagents and tests for use

on our GeneXpert and SmartCycler systems. We assemble our disposable reaction tubes on a custom, automated assembly line that is designed with an expandable capacity. We depend on suppliers for various components used in the manufacture of the GeneXpert and SmartCycler systems, disposable reaction tubes and cartridges, some of which are our sole source for such components.

We received ISO 13485:1996 certification in February 2003. In 2006 we received ISO 13485:2003 certification that includes CADMAS for European and Canadian product distribution. Our facility was inspected by the FDA during 2007 and found to be in compliance with Quality System Regulations.

BACKLOG

We do not consider backlog to be a significant indicator of the level of future sales activity. In general, we do not manufacture our products against a backlog of orders. Production and inventory levels are based on the level of incoming orders as well as projections of future demand. Therefore, we believe that backlog information is not material to understanding our overall business and should not be considered a reliable indicator of our ability to achieve any particular level of revenue or financial performance.

COMPETITION

We face intense competition from an increasing number of companies that offer products in our targeted application areas. These competitors include:

- companies developing and marketing sequence detection systems for industrial research products;
- diagnostic and pharmaceutical companies;
- companies developing drug discovery technologies; and
- companies developing or offering biothreat detection technologies.

Several companies provide systems and reagents for DNA amplification or detection. Life Technologies Corporation and F. Hoffman-La Roche Ltd ("Roche") sell systems integrating DNA amplification and detection (sequence detection systems) to the commercial market. Roche, Abbott Laboratories, BDC, Qiagen, Celera and GenProbe sell sequence detection systems, some with separate robotic batch DNA purification systems and sell reagents to the Clinical market. Other companies, including Siemens, Hologic and bioMerieux, offer molecular tests.

We also face competition from both established companies such as Beckman Coulter, Inc., and development stage companies that are entering these markets. Several companies are currently making or developing products that may or will compete with our products. Our competitors may succeed in developing, obtaining FDA approval for, or marketing technologies or products that are more effective or commercially attractive than our potential products or that render our technologies and potential products obsolete. As these companies develop their technologies, they may develop proprietary positions that prevent us from successfully commercializing our products.

In order to compete effectively, we will need to demonstrate the advantages of our products over alternative well-established technologies and products. We will also need to demonstrate the potential economic value of our products relative to these technologies and products.

In many instances, particularly in the clinical genetics assessment area, our competitors have substantially greater financial, technical, research and other resources, and larger, more established marketing, sales, distribution and service organizations than we have. Moreover, these competitors may offer broader product lines and tactical discounts and have greater name recognition. If we fail to compete effectively against these and other competitors, we could lose sales, and our business will be harmed.

We believe that the principal competitive factors affecting sales of genetic and DNA analysis systems include the speed, integrated functionality and portability of the equipment, ease of use, the quality of the test results, price, market acceptance of the technology, regulatory approvals, particularly in the Clinical market, possession of the necessary intellectual property licenses for specific markets, collaborations and distributor relationships for specific markets and tests, and the selection of tests available for the system. We believe our products better integrate the various processes associated with DNA and RNA analysis than other currently available equipment, and that the speed, portability, flexibility, reliability and ease of use of our products are competitive.

GOVERNMENT REGULATION

In the Clinical market, our products are generally regulated as medical device products 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 either premarket approval ("PMA") or 510(k) clearance from the FDA prior to marketing. The 510(k) clearance pathway usually takes from three to four months from submission but can take longer.

To date, we have received FDA clearance on Smart GBS, Xpert GBS, Xpert EV, Xpert MRSA, Xpert MRSA/SA-SSTI and Xpert MRSA/SA-BC. In addition, we have CE IVD-marked products for sale in Europe for Xpert BCR/ABL, Xpert GBS, Xpert EV, Xpert MRSA, Xpert MRSA/SA-BC, Xpert MRSA/SA-SSTI, Xpert C. difficile, Xpert vanA/vanB and HemosIL Factor II, Factor V on the GeneXpert system. We also have CE IVD-marked products for Smart GBS, Epstein-Barr virus ("EBV"), cytomegalovirus ("CMV") and varicella zoster virus ("VZV") on the SmartCycler system. We have CE IVD marked the GeneXpert system and SmartCycler system for IVD use in EU countries.

For the Industrial and Biothreat markets, some of our products may not need FDA or other regulatory approval; however, all of our products are being produced under ISO 13485 and Quality System Regulations.

INTELLECTUAL PROPERTY

We integrate capabilities in system design, development, production and DNA amplification technologies, along with design, development and manufacture of primers, probes, dyes, quenchers and other individual reagent components. We have and are continuing to develop our own proprietary intellectual property along with licensing specific third-party technologies. We currently have, either through assignment or exclusive license, 42 issued and allowed U.S. patents along with 35 pending US patent applications. These do not include international counterparts.

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 intellectual property that includes technologies that we license. We have patents covering technologies of our own and have licensed technologies from others. 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 could also be subject to third-party claims that we require additional licenses for our products, and such claims could interfere with our business. From time to time, third parties have contacted us regarding their intellectual property, whether to license intellectual property, or in some instances, alleging potential infringement. If our products infringe on the intellectual property rights of others, 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. Even if our products were determined not to infringe on the intellectual property rights of others, we could incur substantial costs in defending any such claims.

We hold an exclusive license to key technologies from Lawrence Livermore National Laboratory ("LLNL") related to thermal cycling with integrated optical detection. This license is limited to the fields of nucleic acid analysis and ligand binding tests and contains diligence and U.S. preference provisions. These technologies have resulted in three issued U.S. patents and two pending international counterpart patent applications. The LLNL technologies are the basis of our I-CORE module and encompass the key I-CORE features.

In April 2004, we entered into a patent license agreement with Applera Corporation ("Applera") for a non-exclusive worldwide license to make, use, and sell our products incorporating technology covered by Applera patents. In June 2006, the patent license agreement was expanded to include additional products.

In July 2004, we entered into an agreement with Roche that provides us with rights under a broad range of Roche patents, which include patents relating to the PCR process, reverse transcription-based methods, nucleic acid quantification methods, real-time PCR detection process and composition, and patents relating to methods for detection of viral and cancer targets.

In September 2005, we entered into a license agreement with Abaxis, Inc. ("Abaxis"), pursuant to which Abaxis granted us a non-exclusive, worldwide, royalty-bearing license to certain Abaxis patents relating to lyophilization technology in accordance with the provisions specified in the agreement. In exchange for the license rights, we (i) made an upfront license payment, (ii) agreed to pay royalties during the term of the agreement and (iii) agreed to pay a yearly license maintenance fee during the term of the agreement, which fee will be creditable against any royalties due during such calendar year.

In November 2005, we entered into a license agreement with DxS Limited ("DxS"), a private United Kingdom based company, pursuant to which DxS granted us a non-exclusive, worldwide, royalty-bearing license to the DxS Scorpions patents and other intellectual property rights relating to its Scorpions technology for the real-time PCR detection of nucleic acid amplification. Under the amended agreement, and subject to certain limitations set forth therein, we will be able to use the licensed rights to develop and sell test products incorporating the licensed technology in the human *in vitro* diagnostics field, in addition to the environmental, veterinarian, forensics identity relationship testing and agricultural fields.

In September 2006, we entered into a sublicense agreement with Abbott Laboratories ("Abbott"), pursuant to which Abbott granted us a non-exclusive, world-wide, non-transferable right to Abbott's exclusive license to certain patents from the Baylor College of Medicine. Under the sublicense agreement, we will be able to make, use, distribute and sell products incorporating the patented technology generally characterized as multiple genomic DNA amplification for deletion detection. In September 2006, we also entered into a license agreement with Abbott, pursuant to which Abbott granted us a non-exclusive, world-wide, non-transferable right to a certain Abbott patent. Under the license agreement, we will be able to make, use, distribute and sell products incorporating the patented technology generally characterized as detection of cervical chlamydia trachomatis infection.

In January 2007, we entered into a sublicense agreement with bioMerieux SA, pursuant to which bioMerieux SA granted us a non-exclusive, worldwide, irrevocable sublicense to certain patents that relate to the diagnosis of MRSA. The patents are owned by Kainos Laboratories Inc. and Professor Keiichi Hiramatsu and have been exclusively licensed to bioMerieux SA with the right for bioMerieux SA to sublicense. 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 with our GeneXpert and SmartCycler systems.

We intend to actively pursue acquisitions of additional molecular markers and/or complementary products, technologies or companies in the fields of oncology, infectious diseases and other fields appropriate for molecular diagnostics. Under this program, we made our first significant technology acquisition during 2006 in the emerging field of micro RNA technology. We currently have approximately 500 micro RNA targets under evaluation, and an additional 1,300 candidates are under investigation. These targets are expected to lead to specific potential test opportunities in the cancer and infectious disease areas.

BUSINESS COMBINATIONS

In August 2006, we purchased 100% of the stock of Actigenics SA ("Actigenics"), a French micro RNA research and services company. The purchase amount paid was $1.2 million in cash.

In February 2007, we purchased 100% of the outstanding stock of Sangtec Molecular Diagnostics AB ("Sangtec"), a company located in Bromma, Sweden. The purchase price of the acquisition was approximately $30.2 million.

In November 2008, we purchased 100% of the stock of Stretton Scientific Limited ("Stretton"), a United Kingdom distributor of scientific diagnostic, measuring and monitoring equipment based in Stretton, United Kingdom. The aggregate purchase price of the acquisition was approximately $2.3 million. The purchase agreement provides for cash holdbacks from the purchase price of $0.3 million and $0.2 million to be paid one and two years, respectively, from the acquisition date as security for the seller's indemnification of obligations.

EMPLOYEES

As of December 31, 2008, we had 547 full-time equivalent and contract employees worldwide. At December 31, 2008 none of our employees were represented by a labor union. Many of our employees in Sweden are under a collective bargaining agreement. We consider our employee relations to be good.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names of our executive officers and their ages, titles and biographies as of February 10, 2009 appear below:

The following table and discussion set forth certain information with regard to our current executive officers.

Name	Age	Position
John L. Bishop	64	Chief Executive Officer and Director
Peter J. Dailey, Ph.D.	53	Senior Vice President, Research and Development
Russel K. Enns, Ph.D.	60	Senior Vice President, Regulatory and Clinical Affairs, Quality System and Reimbursement
Laurie King	55	Senior Vice President, Human Resources
Robert J. Koska	51	Senior Vice President, Worldwide Commercial Operations
Andrew D. Miller	48	Senior Vice President, Chief Financial Officer
David H. Persing, M.D., Ph.D	53	Executive Vice President and Chief Medical and Technology Officer and Director
Humberto Reyes	63	Executive Vice President, Chief Operating Officer
Joseph H. Smith	64	Senior Vice President, General Counsel and Secretary

John L. Bishop. Mr. Bishop joined us as Chief Executive Officer and as a director in April 2002. Mr. Bishop served as President and a director of Vysis, Inc., a genomic disease management company that was acquired by Abbott Laboratories, from 1993 to 2002 and as Chief Executive Officer from 1996 to 2002. From 1991 until 1993, Mr. Bishop was Chairman and Chief Executive Officer of MicroProbe Corporation, a biotechnology company, and, from 1987 until 1991, of Source Scientific Systems, a biomedical instrument manufacturing company. From 1984 to 1986, Mr. Bishop was President and Chief Operating Officer of Gen-Probe, Inc. From 1968 to 1984, Mr. Bishop held various management positions with American Hospital Supply Company and its affiliates, including a three-year assignment in Japan as an Executive Vice President and Chief Executive Officer of International Reagents Corp., a joint venture between American Hospital Supply Company and Green Cross Corporation. Mr. Bishop currently serves as a director of Conceptus, Inc. and as a member of the Board of the Biotechnology Industry Organization (BIO) and the BIO Health Section Governing Board.

Peter J. Dailey, Ph.D. Dr. Dailey joined us as Vice President, Research and Development in June 2006 and now serves as our Senior Vice President, Research and Development. Prior to joining Cepheid, Dr. Dailey was the Senior Director of the Department of Infectious Disease in Discovery Research at Roche Molecular Systems, Inc., from 2002 to 2006. He is a microbiologist and virologist by training and has worked in the field of diagnostic microbiology for the last 25 years. Dr. Dailey worked as a Public Health Microbiologist at the California State Dept. of Health's Viral & Rickettsial Disease Laboratory in Berkeley, California in the 1980s on the development of diagnostic assays for HIV and HTLV. He also worked many years as a Clinical Laboratory microbiologist in medical centers, hospitals, and reference laboratories. Beginning in 1990, he was employed at Chiron Diagnostics (now Bayer Diagnostics) working on the research, development, and application of nucleic acid probe assays, in particular viral load assays for HCV, HIV, and SIV. He has served as a subcommittee member on the National Committee for Clinical Laboratory Standards committee revising Guidelines for Molecular Diagnostic Methods for Infectious Diseases and has authored or co-authored more than 35 peer-reviewed papers as well as several book chapters and reviews on infectious disease nucleic acid diagnostic assays.

Russel K. Enns, Ph.D. Dr. Enns joined us as Senior Vice President, Regulatory Affairs, Quality System, Clinical Affairs and Medical Reimbursement in June 2003. Prior to joining Cepheid, Dr. Enns was Divisional Vice President for Regulatory and Clinical Affairs, Quality Systems, and Medical Reimbursement at Vysis, Inc., a genomic disease management company that was acquired by Abbott Laboratories, from 1995 to 2003. Before joining Vysis, he was Vice President, Technical Affairs of MicroProbe Corporation, a biotechnology company, from 1992 to 1995. Before joining MicroProbe Corporation, he was Director of Product Development, Clinical Programs and Technical Affairs at GenProbe, Inc., a biotechnology diagnostic company, from 1984 to 1992. From 1979 to 1984, Dr. Enns was the Director of Cell Biology at Alpha Therapeutics Corporation, and from 1975 to 1979 he was a Senior Biochemist at Monsanto Corporation. He received his Ph.D. in Biochemistry from University of California at Davis in 1976. Dr. Enns is a charter member and past chair of the Clinical and Laboratory Standards Institute ("CLSI") Area Committee on Molecular Methods, and he is currently a member of the CLSI Board of Directors.

Laurie King. Ms. King was promoted to Senior Vice President, Human Resources in April 2008, having joined us in January 2003 as Director, Human Resources and promoted to Vice President, Human Resources in 2004. Prior to joining Cepheid Ms. King held the

positions of Vice President, Human Resources for Incyte, a genomic technology company, Risk Management Solutions, a risk quantification company and the American Electronics Association, a trade association for the technology industry. Ms. King has more than 25 years experience in Human Resources, is a member of the Bay Area Human Resources Executive Council, and served as West Coast co-chair of the 2008 BIO HR Conference.

Robert J. Koska. Mr. Koska joined us in February 2005 and since September 2007 has served as our Senior Vice President, Worldwide Commercial Operations. Prior to joining Cepheid, Mr. Koska held various positions with Vysis, Inc. and subsequently Abbott Laboratories since 1996. Mr. Koska's work experience includes Divisional Vice President, Vysis U.S. and Canadian Sales at Abbott Molecular Diagnostics, and Senior Vice President Worldwide Sales & Marketing, Vysis prior to the Abbott acquisition. Mr. Koska further previously held progressive positions of increased responsibility in sales and marketing at DIFCO Laboratories, Inc., Bristol Myers Genetic Systems Corporation, and Johnson and Johnson's Ortho Diagnostic Systems, Inc. Mr. Koska has an MBA, Marketing Emphasis, from the University of Michigan, Ann Arbor, MI, and a BS degree in Medical Technology from Wayne State University, Detroit, MI.

Andrew D. Miller. Mr. Miller joined us in April 2008 as Senior Vice President, Chief Financial Officer. Prior to joining Cepheid, Mr. Miller was Vice President and Chief Accounting Officer for Autodesk, an enterprise software company, from 2003 to April 2008. Before joining Autodesk, from 2000 to 2003, Mr. Miller was Senior Vice President and Chief Financial Officer for MarketFirst Software, Inc., a leading provider of enterprise marketing automation software. Prior to MarketFirst, Mr. Miller served as Vice President of Worldwide Finance for Cadence Design Systems, Vice President of Finance and Corporate Controller for Adaptive Broadband Corporation, and senior financial roles for Silicon Graphics, Inc. Mr. Miller graduated Summa Cum Laude from Santa Clara University with a BS degree in Commerce and is a CPA.

David H. Persing, M.D., Ph.D. Dr. Persing first joined us as a director in May 2004, and became our Executive Vice President and Chief Medical and Technology Officer in August 2005. From 1999 to 2005, Dr. Persing was Senior Vice President and Chief Scientific Officer at Corixa Corporation, a Seattle-based biotechnology company, until its acquisition by GlaxoSmithkline. From 1990 to 1999 he was a member of the Clinical and Research Faculty of the Mayo Clinic in Rochester, Minnesota where he researched programs on hepatitis viruses and tick-borne infections. In 1992 he founded and directed the Molecular Microbiology Laboratory at Mayo Clinic. He has authored over 240 peer-reviewed articles and served as Editor in Chief for three textbooks on Molecular Diagnostics, the most recent of which was published by ASM press in December 2004. Dr. Persing currently serves as a director of Monogram Biosciences, Inc.

Humberto Reyes. Mr. Reyes joined us as Senior Vice President of Operations in November 2004 and became our Executive Vice President of Operations in November 2006. Prior to joining Cepheid, Mr. Reyes was an Operations Consultant with Brownsboro Group, LLC. from 2003 to 2004. Prior to joining Brownsboro, Mr. Reyes was a Senior Operations Consultant for EXPERTech Associates, consulting in medical devices and biotech industries from 2001 to 2003. Prior to that, he was Head of Operations for OXIS Health Products Inc., which developed, manufactured and marketed products for oxidative research and wellness programs from 1997 to 2001. He is an experienced operations executive with more than 25 years of progressive management experience in the diagnostic and related industries. Mr. Reyes' work experience also includes Vice President, Operations, Dade Diagnostics at Baxter; Vice President/General Manager, Chromatography Division, Varian and Associates; and Sr. Vice President, Operations, Microgenics Corporation.

Joseph H. Smith. Mr. Smith joined us in June 2003 and now serves as Senior Vice President and General Counsel. He has been Secretary of the Corporation since March 2004. From 1989 to 2002, Mr. Smith was Vice President of Intellectual Property at ABI (now Life Technologies Corporation) and its predecessors, a biotechnology research equipment company, and from 2002 to 2003 was its Senior Vice President for Business Development. Prior to ABI, Mr. Smith was a partner in the law firm of Wiseman, Jones, and Smith; and prior to that he was also a member of the Technical Legal Department of Hewlett-Packard.

AVAILABLE INFORMATION

Our website is located at www.cepheid.com. We make available free of charge on our web site our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file them with or furnish them to the SEC. Information contained on our web site is not part of this Annual Report on Form 10-K or our other filings with the SEC.

The charters of our Audit Committee, our Compensation Committee and our Nominating/Governance Committee, are available on the Investor Relations section of our website under "Corporate Governance". Also available on that section of our website is our Code

of Business Conduct and Ethics, which we expect every employee, officer, director, staffing agency worker and consultant to read, understand and abide by. This information is also available by writing to us at the address on the cover of this Annual Report on Form 10-K.

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 period since our inception. We experienced net losses of approximately $26.0 million in 2006, $21.4 million in 2007 and $21.7 million in 2008 and we do not anticipate that we will achieve profitability for 2009. As of December 31, 2008, we had an accumulated deficit of approximately $176.6 million. Our ability to become profitable will depend on our ability to continue to increase our revenues, which is subject to a number of factors including the uncertainty of the impact of the global economic slowdown on our customers, suppliers and partners, our ability to continue to successfully penetrate the Clinical market, our ability to successfully market the GeneXpert system and develop effective GeneXpert tests, continued growth in sales of our healthcare associated infection 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 including the current significant global economic recession and disruptions in worldwide financial markets. 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, and the impact of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment". 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.

The recent deterioration and current uncertainty in global economic conditions makes it particularly difficult to predict product demand and other related matters, and makes it more likely that our actual results could differ materially from expectations.

Our operations and performance depend on worldwide economic conditions, which have been recently impacted by extreme disruption in the financial markets of the United States and other countries, and may remain depressed for the foreseeable future. These conditions make it difficult for our customers and potential customers to accurately forecast and plan future business activities, and could cause our customers and potential customers to slow or reduce spending on our products. Furthermore, during challenging economic times, our customers may face issues gaining timely access to sufficient credit, which could result in their unwillingness to purchase products or an impairment of their ability to make timely payments to us. If that were to occur, we may experience decreased sales, be required to increase our allowance for doubtful accounts and our days sales outstanding would be negatively impacted. We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery, worldwide, in the United States or in our industry. These and other economic factors could have a material adverse effect on demand for our products and on our financial condition and operating results.

We expect that our operating results may fluctuate significantly, particularly given adverse worldwide economic conditions, 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 the global economic downturn, changes in internal priorities or, in the case of governmental customers, problems with the appropriations process and variability and timing of orders, changes in procedures or protocols with respect to testing or manufacturing inefficiencies. If revenue declines in a quarter, whether due to a delay in recognizing expected revenue, adverse economic conditions, unexpected costs or otherwise, our results of operations will be harmed because many of our expenses are relatively fixed. In particular, research and development, sales and marketing and 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.

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. For example, sales of our products involving our corporate accounts within the Clinical market and those within 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, certain Industrial sales may 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. In addition, Clinical Partner sales to companies such as BDC and Roche can vary significantly from period to period.

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

If our tests for use on our systems do not gain continued market acceptance, we will be unable to generate significant sales, which will prevent us from achieving profitability. While we have received FDA clearance for a number of tests, these products may not continue to experience increased sales. Many factors may affect the market acceptance and commercial success of our products, including:

- timely expansion of our 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 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;
- changes to policies, procedures or what are considered best practices in clinical diagnostics, including practices for detecting and preventing healthcare associated infections;
- the extent and success of our marketing and sales efforts;
- level of reimbursement for our products by third-party payers; 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 continue to increase sales of our Xpert tests and our ability to introduce additional tests for the Clinical market. We believe that successfully expanding our business in the Clinical 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 compete in the Clinical market. If we cannot successfully penetrate the Clinical market to fully 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 market, our products are regulated as medical device products 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 four months from submission but can take longer. The PMA process is much more costly, lengthy and uncertain and generally takes from six months to one year 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 GeneXpert and SmartCycler 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 the opinion of 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. 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, Bothell, Washington and Bromma, Sweden, where we assemble and produce the GeneXpert and SmartCycler systems, cartridges and other molecular diagnostic kits and reagents, are subject to periodic regulatory inspections by the FDA and other federal and state and foreign 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 States of California and Washington 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.

We rely on licenses of key technology from third parties and may 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 systems. We believe that manufacturing reagents and developing tests for our systems is important to our business and growth prospects but may 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.

Our participation in the USPS BDS program may not result in predictable 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 priorities and budgets. Budgetary pressures may result in reduced allocations to projects such as the BDS program, sometimes without advance 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 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. 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.

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. Manufacturing problems can and do arise, and as demand for our products increases, any such problems could have an increasingly significant impact on our operating results. For example, during the second quarter of 2008, we experienced a manufacturing issue with respect to our cartridges, which caused us to experience increased costs and negatively affected our gross margin for that period. 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. In addition, we must maintain sufficient production capacity in order to minimize such delays, which carries fixed costs that we may not be able to offset if orders slow, which would adversely affect our operating margins. If we are unable to manufacture our products consistently, in sufficient quantities, 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 some of the components used in the manufacture of our systems 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. In addition, many companies are experiencing financial difficulties as a result of the global economic slowdown. We cannot assure you that our suppliers will not be adversely affected by these conditions or that they will be able to continue to provide us with the components we need. 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 market would be harmed.

Our ability to sell our products in the Clinical 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, and the continuous growth of managed care, together with efforts to reform the health care delivery system in the United States and Europe, has increased pressure on health care providers and participants in the health care industry to reduce costs. Consolidation among health care providers and other participants in the healthcare industry has resulted in fewer, more powerful groups, whose purchasing power gives them cost containment leverage. 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, some of which have substantially greater financial resources and larger, more established marketing, sales and service organizations than we do. These competitors include:

- companies developing and marketing sequence detection systems for industrial research products;
- diagnostic and pharmaceutical companies;
- companies developing drug discovery technologies; and
- companies developing or offering biothreat detection technologies.

Several companies provide systems and reagents for DNA amplification or detection. ABI (now Life Technologies Corporation) and Roche sell systems integrating DNA amplification and detection (sequence detection systems) to the commercial market. Roche, Abbott Laboratories, Becton, Dickinson and Company, Qiagen, Celera and GenProbe sell sequence detection systems, some with separate robotic batch DNA purification systems and sell reagents to the Clinical market. Other companies, including Siemens, Hologic, 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 system.

In the future, if our products 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. Furthermore, 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 products 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.

Although we carry product liability insurance, if we become the subject of a successful product liability lawsuit, our insurance may not cover all substantial liabilities, which could harm our 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, or new additions to our sales team fail to gain traction among our customers, 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 markets in various geographic regions, and we have a limited ability to influence their efforts. 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. Accordingly, 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 of our technology and have licensed some of our technology under patents of others. Our patents and licenses may not 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.

The United States Government has certain rights to use and disclose some of the intellectual property that we license and could exclusively license it to a third party if we fail to achieve practical application of the intellectual property.

Aspects of the technology licensed by us under agreements with third party licensors may be subject to certain government rights. Government rights in inventions conceived or reduced to practice under a government-funded program may include a non-exclusive, royalty-free worldwide license to practice or have practiced such inventions for any governmental purpose. In addition, the U.S. government has the right to require us or our licensors (as applicable) to grant licenses which would be exclusive under any of such inventions to a third party if they determine that: (1) adequate steps have not been taken to commercialize such inventions in a particular field of use; (2) such action is necessary to meet public health or safety needs; or (3) such action is necessary to meet requirements for public use under federal regulations. Further, the government rights include the right to use and disclose, without limitation, technical data relating to licensed technology that was developed in whole or in part at government expense. At least one of our technology license agreements contains a provision recognizing these government rights.

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 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;
- foreign exchange and currency risks;
- difficulty in collecting accounts receivable or longer payment cycles;
- 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 overall 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 our direct sales force in the United Kingdom, 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.

We have reformatted certain of our products affected by the U.S. Food and Drug Administration final guidance governing the sale of Analyte Specific Reagent ("ASR") products, which could negatively impact our sales of these products.

In September 2007, the FDA published final guidance clarifying the FDA's regulations governing the sale of ASR products, which became effective on September 15, 2008. ASRs are a class of products that do not require regulatory clearance or approval but do require compliance with the FDA's Good Manufacturing Practice Regulations. The final guidance contains more specific ASR regulations with regard to which products may be characterized as ASRs. The final ASR guidance has caused us to implement modifications of some of our ASR products in order for us to continue selling them. We have no assurances that the reformatted products will achieve market acceptance. The final guidance has curtailed our interest in developing any new products that would previously have qualified as ASRs.

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 sales to customers outside the United States are subject to government export regulations that require us to obtain licenses to export such products internationally. In particular, we are required to obtain a new license for each purchase order of our biothreat products that are exported outside the United States. Delays or denial of the grant of any required license, or changes to the regulations that make such delays or denials more likely or frequent, could make it difficult to make sales to foreign customers and could adversely affect our revenue. In addition, we could be subject to fines and penalties for violation of these export regulations if we were found in violation. Such violation could result in penalties, including prohibiting us from exporting our products to one or more countries, and could materially and adversely affect our business.

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 require skilled personnel in areas such as microbiology, clinical and sales, marketing and finance. We generally do not enter into employment agreements requiring these employees to continue in our employment for any period of time. Attracting, retaining and training personnel with the requisite skills remains challenging, 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 foreign, 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 in the United States. 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 workers' compensation insurance. We may not be able to maintain insurance on acceptable terms, if at all.

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 our primary manufacturing facilities in California are located in an earthquake-prone area. In the event our existing manufacturing facilities or equipment are 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.

Our investments in marketable debt securities are subject to risks which may cause losses and affect the liquidity of these investments.

Our investments of $25.0 million, with a fair value of $15.1 million, at December 31, 2008 consisted of auction rate securities. Auction rate securities are securities that are structured with short-term interest rate reset dates of generally less than 90 days, but with contractual maturities that can be well in excess of ten years. Since March 2008, all of our auction rate securities failed at auction. Our auction rate securities consist of investments that are backed by pools of student loans, which are principally guaranteed by the Federal Family Educational Loan Program (“FFELP”), or insured.

On November 10, 2008, we accepted the offer from UBS to sell the auction rate securities held by us back to UBS at par value beginning June 30, 2010 until July 2, 2012 and the offer to provide “no net cost” loans to us up to 75% of the fair value of the auction rate securities. In accepting the settlement arrangement, we also granted UBS the right to sell our auction rate securities at par at any time up until the expiration date of the rights and released UBS from any claims related to the marketing and sale of auction rate securities, other than claims for consequential damages. We intend to exercise our option and sell the auction rate securities back at par beginning June 30, 2010 through July 2, 2012, depending on market conditions. In the meantime, we entered into a “no net cost” secured line of credit with UBS for $14.7 million, which provides cash liquidity to us until June 30, 2010. Given the substantial disruption in the financial markets and among financial services companies, we cannot assure you that UBS will ultimately have the ability to repurchase our auction rate securities at par, or at any other price, as these rights will be an unsecured contractual obligation of UBS. In addition, subsequent changes in fair value of both our auction rate securities and the put option will be recognized in respective period financial results, which could cause fluctuations in the values of these items from period to period.

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 rights, 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.

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.

We enter into collaborations with third parties that may not result in the development of commercially viable products or the generation of significant future revenues.

In the ordinary course of our business, we enter into collaborative arrangements to develop new products or to pursue new markets. These collaborations may not result in the development of products that achieve commercial success, and these collaborations could be terminated prior to developing any products. In addition, our collaboration partners may not necessarily purchase the volume of products that we expect. Accordingly, we cannot be assured that any of our collaborations will result in the successful development of a commercially viable product or result in significant additional future revenues in the future.

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 Global 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 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

In Sunnyvale, California, the base for our manufacturing, product support and research and development efforts, we lease approximately 76,000 square feet of office and laboratory space pursuant to a lease that expires in March 2012, approximately 27,000 square feet of office space pursuant to a lease that expires in July 2012 and approximately 25,000 square feet of office and manufacturing space pursuant to a sublease that expires in September 2009. We also sublease approximately 22,000 square feet in Sunnyvale to support warehousing and distribution efforts pursuant to a sublease that expires in September 2010. In Bothell, Washington we sublease approximately 16,000 square feet of laboratory space for advanced chemistry research and development pursuant to a sublease that expires in August 2011. Outside of Toulouse, France we own an approximately 27,000 square-foot building and lease approximately 2,300 square feet of office space pursuant to a lease that expires in December 2009. In Bromma, Sweden we lease approximately 45,000 square feet of office and manufacturing space pursuant to a lease that expires in December 2009 and approximately 2,000 square feet of office space pursuant to a lease that expires in September 2011. In addition, we lease office space in Illinois, Washington D.C. and Derby, United Kingdom. We believe we will be able to obtain additional facilities space on commercially reasonable terms, if and when they are required.

ITEM 3. LEGAL PROCEEDINGS

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

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

No matters were submitted to a vote of security holders in the fourth quarter of 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF THE EQUITY SECURITIES

PRICE RANGE OF COMMON STOCK

Our common stock has been traded on the NASDAQ Global Market since our initial public offering on June 21, 2000 under the symbol CPHD. The high and low sale prices for our common stock for each quarter of our two most recent fiscal years, as reported on the NASDAQ Global Market, were as follows:

	High	Low
Fiscal year ended December 31, 2008		
First Quarter	$ 33.36	$ 21.58
Second Quarter	28.82	18.18
Third Quarter	30.00	12.57
Fourth Quarter	15.70	8.52
Fiscal year ended December 31, 2007		
First Quarter	$ 12.27	$ 7.40
Second Quarter	14.92	10.66
Third Quarter	23.41	14.05
Fourth Quarter	27.91	19.13

On February 10, 2009, the last reported sale price of our common stock on the NASDAQ Global Market was $8.11 per share. On February 10, 2009, there were approximately 145 holders of record of our common stock. The actual number of shareholders is greater than the number of record holders, and includes shareholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. The number of holders of record also does not include shareholders whose shares may be held in trust by other entities.

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain future earnings, if any, for development of our business and, therefore, do not anticipate that we will declare or pay cash dividends on our capital stock in the foreseeable future.

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes information about our equity compensation plans as of December 31, 2008. All outstanding awards relate to our common stock.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuances under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders (1)(2)(3)	9,006,286	$ 11.72	1,356,381
Equity compensation plans not approved by security holders	—	—	—
Total	9,006,286	$ 11.72	1,356,381

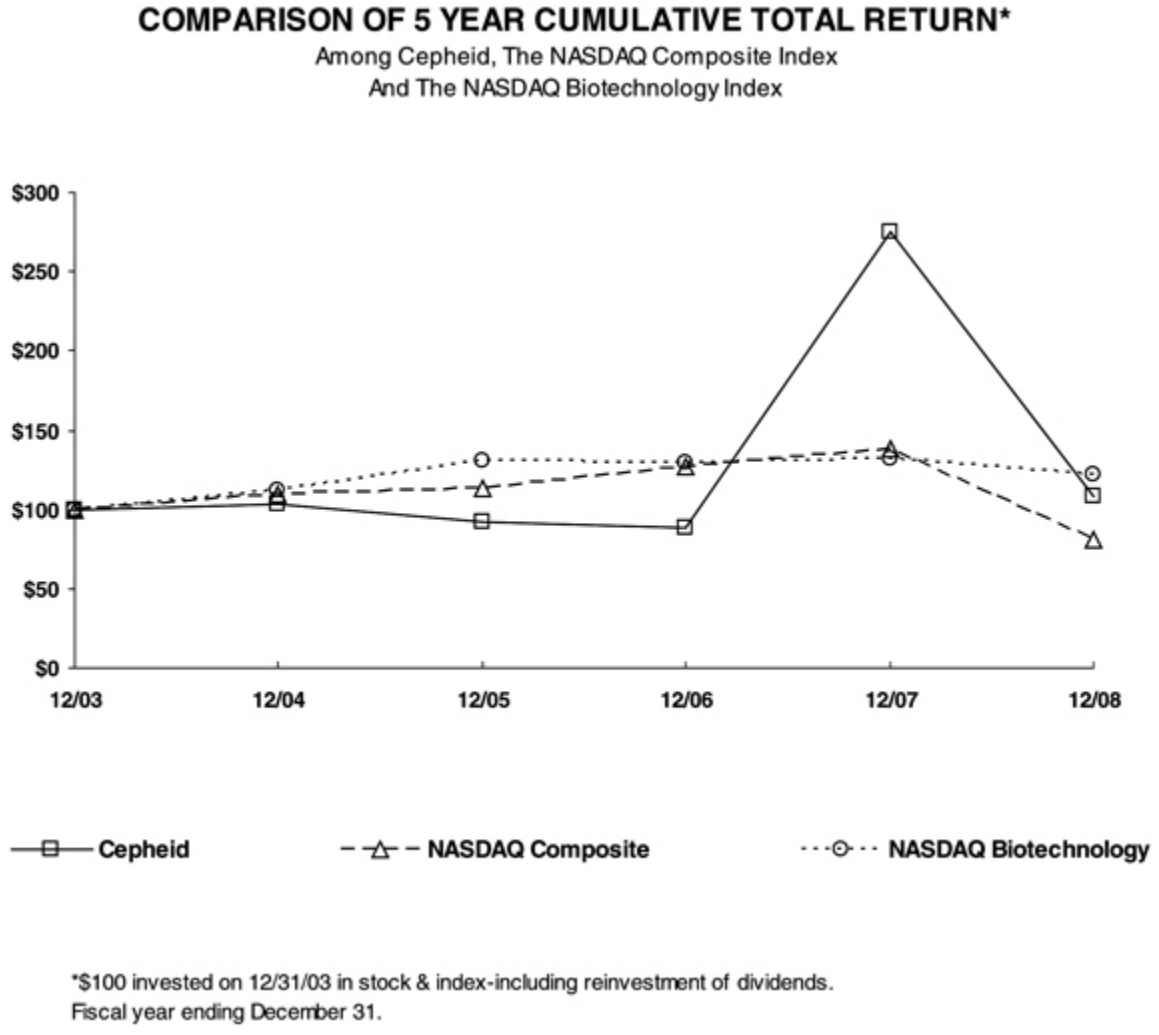
(1) The number of securities remaining available for future issuance in column (c) includes 274,284 shares of common stock authorized and available for issuance under our Employee Stock Purchase Plan ("ESPP"). The number of shares authorized for issuance under the ESPP is subject to an annual increase equal to the lesser of 200,000 shares, 0.75% of the outstanding shares on the date of the annual increase or a lesser amount determined by the Board of Directors. The number of securities to be issued to participants in column (a) does not include shares of common stock to be issued to participants in consideration of aggregate participant contributions under the ESPP as of December 31, 2008.

(2) We issue securities under our 2006 Equity Incentive Plan ("2006 Plan") in forms other than options, warrants or rights. We may issue stock awards, including but not limited to restricted stock awards, restricted stock units, stock bonus awards, stock appreciation rights and performance share awards. Under the 2006 Plan, non-employee directors are automatically granted options to purchase 25,000 shares of common stock upon initial election or appointment to the Board. On the date of the first Board meeting following each annual shareholder meeting each non-employee director then in office for longer than six months will automatically be granted options to purchase 12,500 shares of common stock. The Board may also make discretionary grants to purchase common stock to any non-employee director. Under the terms of our 2006 Plan, each award other than a stock option or stock appreciation right will reduce the number of shares remaining available for future issuance in column (c) by 1.75 shares for each share subject to such award.

(3) We have made awards of restricted stock under our 2006 Plan in forms which do not require a payment by the recipient to us at the time of exercise or vesting. Accordingly, the weighted average exercise price in column (b) does not take these awards into consideration.

STOCK PRICE PERFORMANCE GRAPH

The following graph is furnished to, but not filed with, the Securities and Exchange Commission, and matches Cepheid's cumulative 5-year total shareholder return on common stock with the cumulative total returns of the NASDAQ Composite index and the NASDAQ Biotechnology index. The graph assumes that the value of the investment in our common stock and in each of the indexes (including reinvestment of dividends) was $100 on 12/31/2003.



	12/03	12/04	12/05	12/06	12/07	12/08
Cepheid	**100.00**	**103.76**	**91.65**	**88.73**	**275.05**	**108.35**
NASDAQ Composite	**100.00**	**110.06**	**112.92**	**126.61**	**138.33**	**80.65**
NASDAQ Biotechnology	**100.00**	**112.17**	**130.53**	**130.05**	**132.24**	**122.10**

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data have been derived from our audited consolidated financial statements. The information below is not necessarily indicative of the results of future operations, and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K and the consolidated financial statements and related notes thereto included in Item 8 of this Form 10-K in order to fully understand factors that may affect the comparability of the information presented below.

	Years Ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenues:					
Product sales	$ 159,383	$ 116,532	$ 82,403	$ 80,440	$ 49,967
Other revenues	10,244	12,941	4,949	4,570	3,001
Total revenues	169,627	129,473	87,352	85,010	52,968
Loss from operations	(22,976)	(24,487)	(30,267)	(13,567)	(13,970)
Net loss	(21,713)	(21,423)	(25,985)	(13,594)	(13,800)
Basic and diluted net loss per common share	$ (0.38)	$ (0.39)	$ (0.50)	$ (0.32)	$ (0.34)
Shares used in computing basic and diluted net loss per share	57,101	55,263	52,325	42,494	41,083

	December 31,				
	2008	2007	2006	2005	2004
			(In thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents and investments	$ 48,017	$ 44,026	$ 94,936	$ 37,222	$ 57,439
Working capital	32,211	56,109	90,362	19,561	45,217
Total assets	187,120	165,245	167,661	103,188	120,315
Bank borrowing	14,639	—	—	—	—
Long-term obligations	—	2	44	2,439	14,165
Accumulated deficit	(176,622)	(154,909)	(133,486)	(107,501)	(93,907)
Total shareholders' equity	131,965	126,935	132,706	55,403	65,609

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that relate to future events or our future financial performance. 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 are based upon current expectations that 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 uncertain impact of the significant global economic downturn on our target markets and our business; continued market acceptance of our healthcare associated infection products; changes in the protocols, best practices or level of testing for healthcare associated infections; development and manufacturing problems; the need for additional intellectual property licenses for new tests and other products and the terms of such licenses; our ability to successfully sell additional products in the Clinical market; 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 market; the level of testing at existing clinical customer sites; the mix of products sold, which can affect gross margins; our reliance on distributors to market, sell and support our products; the occurrence of unforeseen expenditures, asset impairments, acquisitions or other transactions; our ability to integrate the businesses, technologies, operations and personnel of acquired companies; the scope and timing of actual United States Postal Service ("USPS") funding of the Biohazard Detection System ("BDS") in its current configuration; the rate of environmental testing using the BDS conducted by the USPS, which will affect the amount of consumable products sold; our success in increasing our direct sales and the effectiveness of our sales personnel; the impact of competitive products and pricing; our ability to manage geographically-dispersed operations; our ability to continue to realize manufacturing efficiencies, which are an important factor in improving gross margins; underlying market conditions worldwide; and the other risks set forth under "Risk Factors" and elsewhere in this report. 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.

STRATEGY

We are a broad-based molecular diagnostics company that develops, manufactures, and markets fully-integrated systems for testing in the Clinical market, as well as for application in our legacy Biothreat and Industrial markets. Our systems enable rapid, sophisticated molecular testing for organisms and genetic-based diseases by automating otherwise complex manual laboratory procedures. Our strategy is to become the leading supplier of integrated systems and tests for molecular diagnostics. Key elements of our strategy to achieve this objective include:

- *Provide a fully-integrated molecular testing solution to the Clinical market.* We believe our GeneXpert system will continue to significantly expand our presence in the Clinical market with its ease of use, flexibility, and rapid and accurate results. We believe this system is currently the only closed, self-contained, fully-integrated and automated system for molecular testing commercially available. The system is currently commercially available in a variety of configurations ranging from 1 to 16 individual test modules, while our GeneXpert Infinity System, which will house up to 48 individual modules and offer both on-demand and batch test capability, is currently in the beta testing phase. To our knowledge, the system is also the only currently available system to offer true random access and on demand test capability for molecular testing.

- *Continue to develop and market new tests.* We plan to capitalize on our strengths in nucleic acid chemistry and molecular biology to continue to internally develop new tests for our systems. In addition, in order to more rapidly expand our test pipeline, we work with strategic partners and major academic institutions and commercial organizations to develop and validate additional tests.

- *Obtain additional target rights.* We expect to continue to expand our collaborations with academic institutions and commercial organizations to develop and obtain target rights to various infectious disease and cancer targets. In addition, we will be focusing key business development activities on identifying infectious disease and cancer targets held by academic institutions or commercial organizations for potential license or acquisition.

- *Enhance international platform.* Internationally, our primary focus is the European Clinical market. However, we also have and will continue to develop programs for other international markets. Our European sales and marketing operations are headquartered in France. In 2008, we implemented a direct sales force in the United Kingdom ("UK") and we sold through distributors in other international markets. We will continue to expand our distribution capability in Europe on both a direct and distributor basis.

- *Continue to maintain applications in the Industrial and Biothreat markets.* We currently sell products into the Industrial and Biothreat markets and expect to continue our offerings in these markets.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND ASSUMPTIONS

We consider our accounting policies related to revenue recognition, fair value of financial instruments, impairment of intangible assets and goodwill, inventory valuation, 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, in valuing financial instruments, how to evaluate our intangible assets and goodwill, the calculation of our inventory valuation adjustments, warranty accrual, and stock-based compensation expense and how to account for our derivative instruments. 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, estimating the amount of inventory obsolescence, warranty costs associated with shipped products, estimating the useful life and volatility of stock awards granted and determining whether our derivative instruments meet the criteria for designation as hedging transactions. 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.

Revenue Recognition

We recognize revenue from the sale of our products and contract arrangements. Our revenue arrangements with multiple elements are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of the undelivered items. The consideration we receive is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units. Advance payments received in excess of amounts earned are classified as deferred revenue until earned.

Determining whether the criteria for recognizing revenue have been met, including, for example, determining whether there is sufficient evidence that an arrangement exists, the collectibility of billings are reasonably assured and whether contractual performance obligations and milestones have been satisfied, requires us to make estimates, assumptions and judgments that affect our operating results. For example, our determination of the probability of collection is based upon assessment of the customer's financial condition through review of their current financial statements or publicly-available credit reports, as well as approvals from government agencies and availability of budgets. For sales to existing customers, prior payment history is also considered in assessing probability of collection. We are required to exercise significant judgment in deciding whether collectibility is reasonably assured, and such judgments may materially affect the timing of our revenues and our results of operations.

Product sales. We recognize revenue from product sales when goods are shipped, 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 our products except in the case of damaged goods. We have not experienced any significant returns of our products.

Contract revenues. Contract revenues consist of fees earned under technology license arrangements, services rendered under research and development arrangements, grants and government sponsored research agreements, and milestone payments and royalties received under license and collaboration agreements. Deferred revenue is recorded when funds are received in advance of technologies to be delivered or services to be performed.

License revenue is generally recognized only after both the license period has commenced and the technology has been delivered. However, in multiple-element revenue arrangements, if the delivered technology does not have stand-alone value or if we do not have objective and reliable evidence of the fair value of the undelivered products or services, the amount of revenue allocable to the delivered technology is deferred and amortized over the related involvement period in which the remaining products or services are provided to the customer.

Research and development and government sponsored research contract revenues are recognized as the related services are performed based on the performance requirements of the relevant contract. Under the agreements, we are required to perform specific research and development activities and are compensated either based on the costs or costs plus a mark-up associated with each specific contract over the term of the agreement.

Incentive milestone payments are recognized as revenue upon the achievement of the specified milestone, assuming there are no continuing performance obligations related to that milestone. Incentive milestone payments are substantially at risk at the inception of the arrangement and are normally triggered by events external to Cepheid.

Royalties are typically based on licensees' net sales of products that utilize our technology and are recognized as earned in accordance with the contract terms when royalties from licensees can be reliably measured and collectibility is reasonably assured, such as upon the receipt of a royalty statement from the customer.

Service revenue is recognized when the services have been provided.

Fair Value of Financial Instruments

SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles ("GAAP") and requires enhanced disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the third unobservable that may be used to measure fair value. The three levels of inputs are the following:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.

- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Level 3 assets consist of auction rate securities whose underlying assets are student loans, most of which are guaranteed by the federal government and the put option. In February 2008, auctions began to fail for these securities, and each auction since then has failed. The auction rate securities were recorded at fair value as of December 31, 2008.

Our investment portfolio of auction rate securities is structured with short-term interest rate reset dates of generally less than 30 days, but with contractual maturities that are well in excess of ten years. Our auction rate securities consist of investments that are backed by pools of student loans, which are principally guaranteed by the Federal Family Educational Loan Program ("FFELP"), or insured. We believe that the credit quality of these securities is high based on these guarantees. We determined the fair market values of our financial instruments based on the fair value hierarchy established in SFAS 157, which requires an entity to maximize the use of observable inputs (Level 1 and Level 2 inputs) and minimize the use of unobservable inputs (Level 3 inputs) when measuring fair value. Until the first quarter of 2008, the fair values of our auction rate securities were determinable by reference to frequent successful Dutch auctions of such securities, which settled at par. Therefore, at the adoption date, we had categorized our investments in auction rate securities as Level 1. Given the current failures in the auction markets to provide quoted market prices of the securities, as well as the lack of any correlation of these instruments to other observable market data, we valued these securities using a discounted cash flow methodology with the most significant input categorized as Level 3. Significant inputs that went into the model were the credit quality of the issuer, the percentage and the types of guarantees, contractual maturity, the timing and probability of the auction succeeding or the security being called and discount factors.

On November 10, 2008, we accepted a comprehensive settlement arrangement offered by UBS, the fund manager with which we hold our auction rate securities. Under the settlement, we will have the option ("the put option") to sell the auction rate securities held in our accounts with UBS to UBS at par value during the period beginning June 30, 2010 and ending July 2, 2012. In accepting the settlement arrangement, we also granted UBS the right to sell our auction rate securities at par at any time up until the expiration date of the rights and released UBS from any claims related to the marketing and sale of auction rate securities, other than claims for consequential damages. Since the settlement agreement is a legally enforceable firm commitment, the put option is recognized as a financial asset at fair value in our financial statements at December 31, 2008, and accounted for separately from the associated securities. The fair value of the put option is based on the difference in value between the par value and the fair value of the associated auction rate securities. We have elected to measure the put option at its fair value pursuant to SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of Financial Accounting Standards Board ("FASB") Statement No. 115" (SFAS 159), and subsequent changes in fair value will also be recognized in current period earnings. Since we intend to exercise the put option during the period beginning June 30, 2010 and ending July 2, 2012, we do not have the intent to hold the associated auction rate securities until recovery or maturity. We have classified these securities as trading pursuant to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115), which requires changes in the fair value of these securities to be recorded in current period earnings, which we believe will substantially offset changes in the fair value of the put option. In addition, the rights permitted us to establish a demand revolving credit line in an amount equal to the par value of the securities at a net no cost.

In the fourth quarter of 2008, we recorded a charge to operations of $9.9 million to reduce the value of our auction rate securities investments classified as trading securities, offset by a gain of $9.4 million upon the initial recognition of the estimated fair value of the put option.

Realizability of Long-Lived Assets

Our intangible assets consist primarily of rights to certain patented technologies that we purchased. Intangible assets are recorded at cost, less accumulated amortization. Intangible assets are amortized over their estimated useful lives, ranging from 5 to 20 years, on a straight-line basis except for intangible assets acquired in the acquisition of Actigenics, Sangtec and Stretton which are amortized on the basis of economic useful life. Amortization of intangible assets is primarily included in cost of product sales in the consolidated statements of operations.

We review our intangible assets for impairment under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". We conduct an 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 our estimate of future undiscounted cash flows, we then calculate the impairment as the excess of the carrying value of the asset over our estimate of its fair market value. Events or circumstances which could trigger an impairment review include a significant adverse change in business climate, an adverse action or assessment by a regulator, unanticipated competition, significant changes in the manner of our use of acquired assets, the strategy for our overall business, or significant negative industry or economic trends. There is significant judgment in estimating future cash flows and fair value. In 2008 we recorded an impairment charge of $0.4 million related to certain licenses with no future use. No impairment charge was recorded in 2007 and 2006.

We annually review our goodwill for impairment under SFAS No. 142, "Goodwill and Other Intangible Assets". If our fair value exceeds our net book value including goodwill, then goodwill is not considered impaired. The initial step is to compare our fair value as determined by our market capitalization to our net book value. If the market capitalization exceeds the net book value, goodwill is presumed to be unimpaired. Otherwise, we would estimate expected future cash flows of our business, which operates in a number of markets and geographical regions. We would then determine the carrying value of our business and compare the carrying value including goodwill and other intangibles to the discounted future cash flows. If the total of future cash flows is less than the carrying amount of the assets, we would recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. Estimates of the future cash flows associated with the assets are critical to these assessments. Changes in these estimates based on changed economic conditions or business strategies could result in material impairment charges in future periods. At December 31, 2008, we determined that goodwill was not impaired.

Inventory and Warranty Provisions

We maintain provisions for inventory obsolescence and warranty costs that we believe are reasonable and that are based on our historical experience and current expectations for future performance. The inventory provision is established using management's estimate of the potential future obsolescence or excess inventory. A substantial decrease in demand for our products or the introduction of new products could lead to excess inventories and could require us to increase our provision for inventory obsolescence. Our current estimates and assumptions are consistent with prior periods. In the past, there have not been significant adjustments of the actual results to our estimates.

We warrant our systems to be free from defects for a period of 12 to 15 months from the date of sale and our disposable products to be free from defects, when handled according to product specifications, for the stated life of such products. Accordingly, a provision for the estimated cost of warranty repair or replacement is recorded at the time revenue is recognized. Our warranty provision is established using management's estimate of future failure rates and of the future costs of repairing any system failures during the warranty period or replacing any disposable products with defects. Significant increases in the failure rates of our products could lead to increased warranty costs and require us to increase our warranty provision. As of December 31, 2008 and 2007, the accrued warranty liability was $0.7 million and $0.5 million, respectively.

Stock-Based Compensation

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)") using the modified prospective transition method. Under the modified prospective transition method, prior periods are not restated for the effect of SFAS 123(R). Commencing with the first quarter of 2006, compensation cost includes

all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), and compensation for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). We recognize the fair value of our stock option awards as compensation expense over the requisite service period of each award, which is generally four years.

Prior to the adoption of SFAS 123(R), we applied SFAS 123, amended by SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure" ("SFAS 148"), which allowed companies to apply the existing accounting rules under APB 25 and related interpretations. In general, as the exercise price of options granted under our plans was equal to the market price of the underlying common stock on the grant date, no stock-based employee compensation cost was recognized in the consolidated financial statements for periods prior to the adoption of SFAS 123(R).

In determining fair value, we use the Black–Scholes model and a single option award approach, which requires the input of subjective assumptions. These assumptions include: estimating the length of time employees will retain their vested stock options before exercising them (expected term), the estimated volatility of our common stock price over the expected term (volatility), risk-free interest rate and the number of shares subject to options that will ultimately not complete their vesting requirements (forfeitures). Changes in the following assumptions can materially affect the estimate of fair value of stock–based compensation.

- Expected term is determined based on historical experience, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its stock-based awards.

- Expected volatility is based on the historical volatility for the past 5 years, which approximates the expected term of the option grant.

- Risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the expected term of a stock award.

- Estimated forfeitures are based on voluntary termination behavior as well as analysis of actual option forfeitures.

Income Taxes

The Company accounts for income taxes using an asset and liability approach, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's Consolidated Financial Statements, but have not been reflected in the Company's taxable income. A valuation allowance is established to reduce deferred tax assets to their estimated realizable value. Therefore, the Company provides a valuation allowance to the extent that the Company does not believe it is more likely than not that it will generate sufficient taxable income in future periods to realize the benefit of its deferred tax assets.

In June 2006, the 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. As a result of the implementation of FIN 48 on January 1, 2007, the Company recognized no material adjustment in the liability for unrecognized income tax benefits.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. For the year ended December 31, 2008, the Company did not recognize any interest or penalties related to uncertain tax positions in the consolidated statements of operations, and at December 31, 2008, the Company had no accrued interest or penalties.

Recent Accounting Pronouncements

For recent accounting pronouncements, see Note 1—Organization and Summary of Significant Accounting Policies to the consolidated financial statements appearing in Item 8 to this annual report, which are incorporated by reference into this Item 7.

Results of Operations

Comparison of Years Ended December 31, 2008 and 2007

Revenues

	Years Ended December 31,		
	2008	2007	% Change
	(Amounts in thousands)		
Revenues:			
System sales	$ 51,766	$ 47,739	8%
Reagent and disposable sales	107,617	68,793	56%
Total product sales	159,383	116,532	37%
Other revenues	10,244	12,941	(21)%
Total Revenues	$ 169,627	$ 129,473	31%

Product Sales

We operate in three market areas: Clinical, Industrial and Biothreat markets. Within the Clinical market, we have Core Clinical sales to laboratories and hospitals and Non-core Clinical sales to partners. Non-core Clinical partner sales include sales of our SmartCycler system to BDC as well as OEM sales of selected tests to Roche.

	Years Ended December 31,		
	2008	2007	% Change
	(Amounts in thousands)		
Product sales by market:			
Core Clinical	$ 91,729	$ 43,369	112%
Clinical Partner	16,421	17,589	(7)%
Total Clinical	108,150	60,958	77%
Biothreat	35,797	40,806	(12)%
Industrial	15,436	14,768	5%
Total Product Sales	$ 159,383	$ 116,532	37%

Total product sales increased 37% to $159.4 million in 2008 from $116.5 million in 2007, primarily due to an increase in overall GeneXpert system sales in the Core Clinical market and Xpert MRSA disposal test sales offset by the decline in product sales in the Biothreat market. Core Clinical product sales increased $48.4 million, or 112%, in 2008 compared to 2007 due primarily to continued adoption of our GeneXpert systems and Xpert tests. Sales of Xpert MRSA disposable tests increased to $47.4 million in 2008 as compared to $8.7 million in 2007 while GeneXpert system sales increased $5.8 million. Product sales from the Clinical Partner market in 2008 declined by $1.2 million, or 7%, as compared to 2007. The decrease in Clinical Partner product sales was due to the expiration of our contract with BDC in 2008 and the cancellation of certain contracted purchases by Roche during 2008. In the Biothreat market, product sales decreased by $5.0 million or 12% from $40.8 million in 2007 to $35.8 million in 2008. This decrease was primarily due to reduced anthrax test cartridge sales to Northrop Grumman/USPS. Product sales to Northrop Grumman/USPS represented 23% and 36% of our total product sales in 2008 and 2007, respectively. Industrial sales were approximately flat in 2008 as compared to 2007.

We expect our Core Clinical product sales to continue to grow in 2009 as we continue our expansion of products for the healthcare associated infections market. We expect that our Non-core Clinical sales to partners will continue to decrease in 2009 due to the previously mentioned expiration of our contract with BDC and product cancellations by Roche during 2008. We also expect our Biothreat sales to decrease in 2009 as we expect the USPS to purchase contractual minimum levels of product.

The following table provides a breakdown of our product sales by geographic regions:

	Years Ended December 31,		
	2008	2007	% Change
	(Amounts in thousands)		
Product Sales by Geographic Regions:			
North America	$ 125,327	$ 92,789	35%
International	34,056	23,743	43%
Total Product Sales	$ 159,383	$ 116,532	37%

Product sales in North America increased $32.5 million, or 35%, from $92.8 million in 2007 to $125.3 million in 2008. The increase in North American product sales were primarily driven by the growth in the Core Clinical market from the continued adoption of our GeneXpert system sales and Xpert MRSA disposable tests, offset by the decrease in product sales in the Biothreat market, for which our sales are primarily in North America. Excluding Biothreat, North America product sales grew 71% in 2008 as compared to 2007 Internationally, which primarily represents sales in Europe, product sales increased to $34.1 million in 2008, a 43% increase. This increase was primarily due to our focus on the European Clinical market and increasing our distribution capability in Europe on both a direct and distributor basis, resulting in the continued growth in sales of our GeneXpert systems and Xpert MRSA disposable tests.

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

Other Revenue

Other revenue of $10.2 million in 2008 decreased 21% from $12.9 million in 2007, primarily due to the termination of the Centers for Disease Control program in the third quarter of 2007, which had $2.5 million higher program revenues in 2007 than 2008. We expect that other revenue will continue to decrease during 2009 as certain of our collaboration projects reach transition levels in their lifecycles.

Costs and Operating Expenses

	Years Ended December 31,		
	2008	2007	% Change
	(Amounts in thousands)		
Costs and operating expenses:			
Cost of product sales	$ 89,040	$ 69,174	29%
Collaboration profit sharing	11,089	12,256	(10)%
Research and development	43,310	31,449	38%
Sales and marketing	29,757	22,812	30%
General and administrative	20,861	18,269	14%
Gain from legal settlement	(1,454)	—	100%
Total costs and operating expenses	$ 192,603	$ 153,960	25%

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 purchases of Sangtec and Stretton. As a result of the increased product sales discussed above, cost of product sales increased 29% to $89.0 million in 2008 compared to $69.2 million in 2007. Our product gross margin percentage was 44% and 41% in 2008 and 2007, respectively. The increase in product gross margin percentage was primarily due to a shift in product mix to higher margin products, such as clinical reagents, most notably growth in our Xpert MRSA test revenue, and increased manufacturing efficiencies resulting from automation of our manufacturing processes and increased volumes.

Collaboration Profit Sharing

Collaboration profit sharing represents the amount that we pay to ABI (now Life Technologies Corporation) under our collaboration agreement to develop reagents for use in the USPS BDS program. Under the agreement, computed gross margin on anthrax cartridge sales are shared equally between the two parties. The collaboration profit sharing expense was $11.1 million and $12.3 million in 2008 and 2007, respectively. The decrease in collaboration profit sharing was the result of decreased anthrax cartridge sales under the USPS BDS program. This expense will fluctuate relatively proportionally to the sales of anthrax cartridges under the USPS BDS program, which we expect will decrease in 2009.

Research and Development Expenses

Research and development expenses consist of salaries and employee-related expenses, which include stock-based compensation, clinical trials, research and development materials, facility costs and depreciation. Research and development expenses increased 38% to $43.3 million in 2008 compared to $31.4 million in 2007. The increase in research and development expenses of $11.9 million is primarily due to a $3.9 million increase in salaries and employee-related expenses, inclusive of a $1.3 million increase in stock-based

compensation. Other increases included a $2.3 million increase in clinical trial costs, a $0.9 million increase in supplies used in research activities, a $0.9 million increase in contractor costs and a $0.4 million increase in lab supplies and freight expenses. The increase in 2008 reflects expansion in our test pipeline development activities which in 2008 resulted in the FDA clearance and U.S. release of our Xpert MRSA/SA-SSTI and Xpert MRSA/SA-BC products and CE IVD-marked products released for sale in Europe, including Xpert C. difficile and Xpert vanA/vanB. We expect that our research and development expenses will decrease as a percentage of total revenues in 2009 as we implemented headcount and cost savings initiatives in early 2009 without impacting the development of our nearer term, more significant projects.

Sales and Marketing Expenses

Sales and marketing expenses increased 30% to $29.8 million in 2008 compared to $22.8 million in 2007. The increase of $7.0 million included a $4.4 million increase in salaries and employee-related expenses, inclusive of a $1.2 million increase in stock-based compensation. Additionally contributing to the increase was a $1.8 million increase in trade-show and travel-related expenses and a $0.3 million increase in depreciation and amortization primarily related to demo equipment. These increases reflect the increase in sales and marketing headcount and expanded efforts in the Clinical market. We expect our sales and marketing expenses will increase in 2009 as we continue to expand our efforts in the Clinical market, with particular emphasis on pursuing the market opportunities for our healthcare associated infection products.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and employee-related expenses, which include stock-based compensation, travel, facility, legal, accounting and other professional fees. General and administrative expenses increased 14% from $18.3 million for the year ended December 31, 2007 to $20.9 million for the year ended December 31, 2008. The increase of $2.6 million was primarily due to a $1.5 million increase in salaries and employee-related expenses, inclusive of a $0.4 million increase in stock-based compensation expense, which reflects an increase in headcount to support our overall corporate growth. In addition legal and other professional expenses increased by $0.3 million, primarily to support intellectual property-related activities. In addition, facilities costs increased by $0.2 million. We expect our general and administrative expenses to remain relatively flat as a percentage of total revenues in 2009.

Gain from Legal Settlement

On December 25, 2008 we entered into a Settlement Agreement and Mutual Release ("Roche Settlement Agreement") with Roche Molecular Systems, Inc. ("RMS") regarding the cancellation by RMS of outstanding purchase orders as well as future purchasing requirements under a previously negotiated supply agreement with us. Pursuant to the agreement, RMS agreed to pay us $2.1 million as full and complete consideration for all cancelled orders and failure to meet purchasing requirements under the supply agreement. Approximately $0.7 million of the consideration was applied against certain inventory purchases that we had made in anticipation of building product to ship to Roche. The remaining $1.4 million was recorded as a gain. We received the payment in January 2009.

Other Income (Expense), Net

	Years Ended December 31,		
	2008	2007	% Change
	(Amounts in thousands)		
Other income (expenses), net:			
Interest income	$ 1,225	$ 2,731	(55)%
Interest expense	(13)	(22)	(41)%
Foreign currency gain (loss) and other	(860)	568	(251)%
Total other income (expenses), net	$ 352	$ 3,277	(89)%

Other income (expense) decreased to a $0.3 million gain in 2008 from a $3.3 million gain in 2007, primarily due to a loss of $9.9 million to reduce the value of our auction rate securities investments classified as trading securities, offset by a gain of $9.4 million upon the initial recognition of the estimated fair value of the put option. Additionally contributing to the decrease was foreign currency losses reflecting strengthening of the U.S. Dollar during the second half of year in 2008 and a decrease in interest income with lower average cash balances and lower interest rates in 2008.

Income Taxes

Income tax benefit of $0.9 million in 2008 represents current U.S. federal income tax benefit of $0.2 million related to a refundable research and development ("R&D") credit as provided by the Housing and Economic Recovery Act of 2008 ("Act"). The Act, signed into law in July 2008, allows taxpayers to claim refundable alternative minimum tax or R&D credit carryovers if they forego bonus depreciation on certain qualified property and equipment placed in service from the period between April and December 2008. The Company estimated and recognized the credit based on property and equipment placed into service through the year ended December 31, 2008. The income tax benefit in 2008 also represents $0.8 million of income tax benefit mainly related to the amortization of acquired intangibles in Sweden and refundable R&D credit in France, offset by $0.1 million of state income tax expense. As of December 31, 2008 and 2007, we had deferred tax assets of approximately $71.8 million and $63.2 million, respectively, which were offset by a valuation allowances of $71.3 million and $59.9 million, respectively. We also had a deferred tax liability of $2.6 million as of December 31, 2008 in connection with the acquisition of the assets and licensed intellectual properties of Sangtec and Stretton, which we acquired in February 2007 and November 2008, respectively. As of December 31, 2008, we had net operating loss carryforwards for federal income tax purposes of approximately $164.8 million, which expire in the years 2011 through 2028, and federal research and development tax credits of approximately $4.2 million, which expire in the years 2013 through 2027. As of December 31, 2008, we had net operating loss carryforwards for state income tax purposes of approximately $61.3 million, which expire in the years 2012 through 2018, and state research and development tax credits of approximately $5.2 million, which have no expiration date.

Utilization of our net operating loss may be subject to a substantial annual limitation due to ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such annual limitation may result in the expiration of net operating losses before utilization.

Undistributed earnings of our foreign subsidiaries of approximately $1.9 million and $1.4 million at December 31, 2008 and 2007, respectively, are considered to be indefinitely reinvested, and, accordingly, no provisions for federal and state income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to both federal income taxes, subject to an adjustment for foreign income tax credit, and withholding taxes payable to various foreign countries. The distribution of such foreign earnings to the U.S. parent would have no U.S. tax impact as the net operating loss carryforwards exceed the undistributed earnings.

Comparison of Years Ended December 31, 2007 and 2006

Revenues

	Years Ended December 31,		
	2007	2006	% Change
	(Amounts in thousands)		
Revenues:			
Systems sales	$ 47,739	$ 22,737	110%
Reagent and disposable sales	68,793	59,666	15%
Total product sales	116,532	82,403	41%
Contract revenues	8,554	3,913	119%
Grant and government sponsored research revenue	4,387	1,036	323%
Total Revenues	$ 129,473	$ 87,352	48%

Product Sales

We operate in three market areas: Clinical, Industrial and Biothreat markets.

	Years Ended December 31,		
	2007	2006	% Change
	(Amounts in thousands)		
Product sales by market:			
Core Clinical	$ 43,369	$ 15,626	178%
Clinical Partner	17,589	3,995	340%
Total Clinical	60,958	19,621	211%
Industrial	14,768	14,784	(0)%
Biothreat	40,806	47,998	(15)%
Total Product Sales	$ 116,532	$ 82,403	41%

Total product sales increased 41% to $116.5 million in 2007 from $82.4 million in 2006. The increase in product sales was primarily due to growth of $27.7 million in the Core Clinical market, which included an increase of $18.6 million related to GeneXpert systems sales and $5.3 million for SmartCycler system sales as well as an increase in reagent and disposable sales primarily due to sales of $10.6 million of GeneXpert tests including $8.7 million of Xpert MRSA disposable tests. Such increases were partially offset by a decrease of $7.2 million in product sales in the Biothreat market for 2007 as compared to 2006 due to reduced anthrax test cartridge sales of $7.5 million to Northrop Grumman/USPS in the Biothreat market. Product sales to Northrop Grumman/USPS represented 36% and 59% of our total product sales in 2007 and 2006, respectively.

The following table provides a breakdown of our product sales by geographic regions:

	Years Ended December 31,		
	2007	2006	% Change
	(Amounts in thousands)		
Product Sales by Geographic Regions:			
North America	$ 92,789	$ 72,932	27%
International	23,743	9,471	151%
Total Product Sales	$ 116,532	$ 82,403	41%

Product sales in North America increased $19.9 million or 27% from $72.9 million in 2006 to $92.8 million in 2007. The increase in North American product sales was primarily driven by the growth in the Core Clinical market related to increased GeneXpert systems sales as well as an increase in reagent and disposable sales, primarily due to sales of $10.6 million of GeneXpert tests including $8.7 million of Xpert MRSA disposable tests. Increased GeneXpert system sales and sales of Xpert MRSA disposable tests were offset by decreased product sales in the Biothreat market, for which our sales are primarily in North America. Internationally, which primarily represents sales in Europe, product sales increased from $9.5 million in 2006 to $23.7 million in 2007, representing a 151% increase. This increase was primarily due to our focus on the European Clinical market resulting in the growth in sales of our GeneXpert systems and Xpert MRSA disposable tests, as the European Clinical market began to adopt the GeneXpert system and Xpert MRSA disposable tests.

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 $8.6 million in 2007 and $3.9 million in 2006 and include $1.9 million related to the amortization of license fees in conjunction with our collaboration agreement with bioMerieux, Inc., which are being recognized ratably over the period of approximately five years, which represents the estimated period of our continuing involvement under this agreement. The increase in revenues was primarily due to collaboration agreements which began in the second half of 2006.

Grants and Government Sponsored Research Revenue

Grants and government sponsored research revenue increased to $4.4 million in 2007 from $1.0 million in 2006. The revenue in 2007 was derived from programs with the Centers for Disease Control and Prevention (“CDC”) and National Institutes of Health, revenues from which started in the first quarter of 2007. Such revenue increase was partially offset by decreased revenue from the completion of the National Cancer Institute program in 2006. Revenue derived from the program with the CDC, which terminated in September 2007, was $2.9 million in 2007 and $0.1 million in 2006.

Costs and Operating Expenses

	Years Ended December 31,		
	2007	2006	% Change
	(Amounts in thousands)		
Costs and operating expenses:			
Cost of product sales	$ 69,174	$ 48,800	42%
Collaboration profit sharing	12,256	14,974	(18)%
Research and development	31,449	23,886	32%
In-process research and development	—	139	(100)%
Sales and marketing	22,812	14,116	62%
General and administrative	18,269	12,354	48%
Expense for patent related matter	—	3,350	(100)%
Total costs and operating expenses	$ 153,960	$ 117,619	31%

Cost of Product Sales

As a result of the increased product sales discussed above, cost of product sales increased 42% to $69.2 million in 2007 compared to $48.8 million in 2006. Our product gross margin was 41% in 2007 and 2006. The manufacturing efficiencies achieved in 2007 were offset primarily by increased expense related to amortization of intangible assets associated with the acquisition of Sangtec in 2007 and by stock-based compensation expense.

Collaboration Profit Sharing

The collaboration profit sharing was $12.3 million and $15.0 million in 2007 and 2006, respectively. The decrease in collaboration profit sharing was the result of decreased anthrax cartridge sales under the USPS BDS program.

Research and Development Expenses

Research and development expenses increased 32% to $31.4 million in 2007 from $23.9 million in 2006. The increase in research and development expenses of $7.6 million was primarily due to a $4.5 million increase in salaries and employee-related expenses, including an increase of $1.3 million in stock-based compensation, resulting from our operational expansion in Europe and the United States, a $1.3 million increase in facility related costs and depreciation expense, a $0.6 million increase in direct material related costs, a $0.3 million increase in consulting costs, and a $0.3 million increase in travel related expenses. The increase in 2007 also reflects expansion in our contract, grants and government sponsored research activities and the impact of the Sangtec acquisition in 2007.

In-process Research and Development

In-process research and development of $0.1 million in 2006 represents the write-off of research and development intangible assets acquired in the acquisition of Actigenics in August 2006 that had no alternative future uses. No related expense was incurred in 2007.

Sales and Marketing Expenses

Sales and marketing expenses increased 62% to $22.8 million in 2007 compared to $14.1 million in 2006. The increase of $8.7 million included a $6.1 million increase in salaries and employee-related expenses, inclusive of both a $0.7 million increase in stock-based compensation and a $2.6 million increase in sales commissions due to greater commission-based sales. Other increases included a $0.6 million increase in consulting and other professional fees, a $0.5 million increase in travel related expenses, a $0.4 million increase in depreciation expense, $0.2 million in facilities and information technology related costs, and a $0.2 million increase in marketing and demo related costs.

General and Administrative Expenses

General and administrative expenses increased 48% from $12.4 million for the year ended December 31, 2006 to $18.3 million for the year ended December 31, 2007. The increase of $5.9 million was primarily due to a $3.8 million increase in salaries and employee-related expenses, inclusive of a $1.3 million increase in stock-based compensation expense, which reflects an increase in headcount, partially from the acquisition of Sangtec, as well as costs associated with a separation and consulting agreement we entered

into in December 2007 with our former Chief Financial Officer, pursuant to which we recorded salary and employee related expenses of $0.3 million and stock-based compensation of $0.8 million,. Other increases included $1.8 million in legal and other professional consulting expenses, and $0.1 million in travel related expenses.

Expense for Patent-related Matter

On January 2, 2007, we entered into a Settlement and Cross-License Agreement (the "Settlement Agreement") with Idaho Technology regarding certain Cepheid and Idaho Technology intellectual property (the "Intellectual Property"). 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 product lines and contains certain covenants by each of the parties not to sue the other. Pursuant to the Settlement Agreement, we 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 we believed we would not be held liable for infringement had the issue ultimately gone to litigation, we came to the conclusion to settle the litigation. We made the Settlement Agreement and payment to avoid incurring significant legal costs to defend our case. Our belief that we did not infringe Idaho Technology's patents was based on our 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 we did not believe there to be any validity to the patent infringement case, we did not ascribe any value to future product sales and recorded the whole amount as fiscal 2006 expense.

Other Income (Expense), Net

	Years Ended December 31,		
	2007	2006	% Change
	(Amounts in thousands)		
Other income (expenses), net:			
Interest income	$ 2,731	$ 4,402	(38)%
Interest expense	(22)	(367)	(94)%
Foreign currency gain and other	568	247	130%
Total other income (expenses), net	$ 3,277	$ 4,282	(23)%

Interest income decreased to $2.7 million in 2007 from $4.4 million in 2006. The decrease was primarily due to the redemption of marketable securities in the first quarter of 2007, the proceeds from which were used to acquire Sangtec. The decrease in interest expense of $0.3 million was primarily due to repayment of the line of credit during the first quarter of 2006. Foreign currency gain and other increased by $0.3 million primarily as a result of the weakening of the U.S. Dollar during 2007.

Income Taxes

Income tax expense of $0.2 million in 2007 represents current foreign income taxes related to our French subsidiary. As of December 31, 2007 and 2006, we had deferred tax assets of approximately $63.2 million and $60.0 million, respectively, which were offset by a valuation allowance of $59.9 million and $60.0 million, respectively. We also had a deferred tax liability of $3.3 million as of December 31, 2007. As of December 31, 2007, we had net operating loss carryforwards for federal income tax purposes of approximately $124.8 million, which expire in the years 2011 through 2027, and federal research and development tax credits of approximately $4.1 million, which expire in the years 2012 through 2026. As of December 31, 2007, we had net operating loss carryforwards for state income tax purposes of approximately $47.2 million, which expire in the years 2011 through 2017, and state research and development tax credits of approximately $2.9 million, which have no expiration date.

Undistributed earnings of our foreign subsidiaries of approximately $1.4 million and $0.5 million at December 31, 2007 and 2006, respectively, are considered to be indefinitely reinvested, and, accordingly, no provisions for federal and state income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to both federal income taxes, subject to an adjustment for foreign income tax credit, and withholding taxes payable to various foreign countries. The distribution of such foreign earnings to the U.S. parent would have no U.S. tax impact as the net operating loss carryforwards exceed the undistributed earnings.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Flow

As of December 31, 2008, we had $23.5 million in cash and cash equivalents. Our total cash and cash equivalents increased in the

year ended December 31, 2008 by $7.0 million, which consisted primarily of $4.6 million used for operating activities and $15.2 million used for investing activities, offset by $26.8 million provided by financing activities. We maintain our portfolio of cash equivalents in money market funds in order to minimize market risk and preserve principal.

Net cash used in operating activities was $4.6 million, $14.7 million and $11.7 million in 2008, 2007 and 2006, respectively. In 2008, net cash used in operating activities primarily consisted of a $21.7 million net loss, which was offset by $12.7 million of depreciation expense and amortization of intangible assets and $14.1 million of stock-based compensation. In addition, the decrease of $10.6 million attributable to changes in operating assets and liabilities consisted primarily of a decrease in deferred revenue of $1.5 million, increases in inventory of $8.6 million and prepaid expenses of $2.5 million, which were partially offset by a decrease in accounts receivable of $2.5 million and an increase of $0.8 million in accounts payable and other current liabilities. In 2007, net cash used in operating activities primarily consisted of a $21.4 million net loss, which was partially offset by $9.8 million of depreciation expense and amortization of intangible assets and $11.1 million of stock-based compensation. In addition, the decrease of $14.4 million attributable to changes in operating assets and liabilities consisted primarily of increases in receivables of $4.6 million, inventory of $11.3 million, prepaid expenses of $0.9 million, payments of $3.4 million for patent-related matters and $0.8 million of deferred revenue, which were partially offset by increases of $6.1 million in accounts payable, other current liabilities and accrued compensation, $0.2 million in income taxes payable and a decrease of $0.2 million in other non-current assets. In 2006, net cash used in operating activities primarily consisted of a $26.0 million net loss, which was partially offset by $7.6 million of depreciation expense and amortization of intangible assets and $7.3 million of stock-based compensation. In addition, the decrease in operating assets and liabilities of $1.1 million consisted primarily of a $3.4 million increase in accrued expense for a patent-related matter, which was offset by $4.4 million principally related to inventory, accounts receivable, deferred revenue and accounts payable and other accrued liabilities.

Net cash provided by (used in) investing activities was ($15.2) million, $10.5 million and ($74.9) million in 2008, 2007 and 2006, respectively. In 2008, net cash used in investing activities consisted of $14.9 million in capital expenditures and $1.9 million used to acquire Stretton, which was partially offset by $2.6 million net marketable securities sold and $0.1 million in sales of fixed assets. In 2007, net cash provided by investing activities consisted of $50.2 million net marketable securities sold, which was partially offset by $27.6 million used to acquire Sangtec and Actigenics, $4.9 million used for technology licenses and $7.1 million in capital expenditures. In 2006, net cash used in investing activities consisted of $56.6 million net purchases of marketable securities, $1.0 million to acquire Actigenics, $5.9 million in capital expenditures, and $11.3 million for technology licenses.

Net cash provided by financing activities was $26.8 million, $3.3 million and $87.7 million in 2008, 2007 and 2006, respectively. In 2008, cash provided by financing activities consisted of $14.7 million in borrowings from lines of credit and $12.1 million in net proceeds from the sale of common stock under our employee equity incentive plans. In 2007, cash provided by financing activities consisted of $3.7 million in net proceeds from the sale of common stock under our employee equity incentive plans that was partially offset by repayments of $0.4 million on our equipment and other loans. In 2006, cash provided by financing activities consisted of $95.8 million in net proceeds from the sale of common stock. This was partially offset by repayments of $8.1 million on our equipment loans and line of credit.

At December 31, 2008, we had $25.0 million invested in auction rate securities at cost and $15.1 million of fair value, all of which have failed to settle at auction since March 2008. At December 31, 2008, all but two of our auction rate securities continue to carry at least an AAA rating by at least one of the rating agencies with those two carrying an AA rating. Our auction rate securities consist of investments that are backed by pools of student loans, which are principally guaranteed by the Federal Family Educational Loan Program (“FFELP”), or insured.

In October 2008, UBS offered us an option to sell the auction rate securities held by us back to UBS at par value beginning June 30, 2010 until July 2, 2012 and with an offer to provide “no net cost” loans to us up to 75% of the fair value of the auction rate securities. On November 10, 2008, we accepted this offer. In accepting the settlement arrangement, we also granted UBS the right to sell our auction rate securities at par at any time up until the expiration date of the rights and released UBS from any claims related to the marketing and sale of auction rate securities, other than claims for consequential damages. The put option with fair value of $9.4 million is a separate freestanding instrument and will be accounted for separately from our auction rate securities investment. We intend to exercise our option and sell the auction rate securities back at par beginning June 30, 2010 through July 2, 2012, depending on market conditions. In the meantime, we entered into a “no net cost” secured line of credit with UBS for $14.7 million, which provides cash liquidity to us until June 30, 2010.

In the fourth quarter of 2008, we recorded a charge to earnings of $9.9 million to reduce the value of our auction rate securities investments classified as trading securities, offset by a gain of $9.4 million on the put option. We do not believe that the recent auction failures and our inability to liquidate these investments for some period of time will have any material impact on our ability to fund our operating requirements, capital expenditures, acquisitions, if any, or other business requirements.

Contractual Obligations

As of December 31, 2008, our contractual obligations were as follows (in thousands):

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating leases	$ 9,908	$ 3,612	$ 5,426	$ 870	—
Bank borrowing	14,639	14,639	—	—	—
Purchase obligations	20,396	6,567	8,929	$ 4,900	—
Minimum royalties	8,835	904	1,843	1,911	4,177
	$ 53,778	$ 25,722	$ 16,198	$ 7,681	$ 4,177

Purchase obligations include purchase orders or contracts for the purchase of raw materials and other goods and services. We do not have significant agreements for the purchase of raw materials or other goods specifying minimum quantities or set prices that exceed our expected requirements. Minimum royalty payments represent licensed royalties we are obligated to pay under our license agreements.

The expected timing of payment of the obligations discussed above is estimated based on current information. Timing of payments and actual amounts paid could vary in some circumstances depending on the time of receipt of goods or services or changes to agreed-upon amounts for some obligations.

Off-Balance-Sheet Arrangements

As of December 31, 2008, 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 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 equity, debt or convertible 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 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS*

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 money market funds. Due to the short-term nature of the investments, we believe we currently have no material exposure to interest rate risk arising from our investments. Therefore we have not included quantitative tabular disclosure in this Form 10-K. As described above, we had $25.0 million invested in auction rate securities at cost, all of which have failed to settle at auction since March 2008. See “Liquidity and Capital Resources – Cash and Cash Flow” above for a description of our auction rate securities and settlement with UBS. We valued these securities using a discounted cash flow methodology. Significant inputs that went into the model were the credit quality of the issuer, the percentage and the types of guarantees, contractual maturity, the timing and probability of the auction succeeding or the security being called and discount factors. The assumptions used in preparing the discounted cash flow model include estimates of, based on data available as of December 31, 2008, interest rates, timing and amount of cash flows, credit and liquidity premiums, and expected holding periods of the ARS. These assumptions are volatile and subject to change as the underlying sources of these assumptions and market conditions change, thereby

could result in significant changes to the fair value of auction rate securities. A hypothetical increase in interest rate by 100 basis points would have resulted in an increase in the fair value of our auction rate securities and a decrease in the fair value of our put option position of approximately $0.4 million as of December 31, 2008. We do not utilize derivative financial instruments to manage our interest rate risks.

We operate primarily in the United States and a majority of our revenue, cost, expense and capital purchasing activities for 2008 were transacted in U.S. Dollars. As a corporation with international as well as domestic operations, we are exposed to changes in foreign exchange rates. These exposures may change over time and could have a material adverse impact on our financial results. During the fiscal year ended December 31, 2007 we did not utilize foreign currency forward contracts to manage the risk of exchange rate fluctuations. As of December 31, 2008, we had two outstanding exchange forward contracts with approximately $0.1 million of pre-tax gain for the estimated fair value of outstanding currency exchange forward contracts. We will continue to use hedging programs in the future and may use currency forward contracts, currency options, and/or other derivative financial instruments commonly utilized to reduce financial market risks if it is determined that such hedging activities are appropriate to reduce risk. At December 31, 2008, a 10% change in the exchange rates in our portfolio of foreign currency contracts would have changed our unrealized gain by approximately $1.0 million. We do not hold or purchase any currency contracts for trading purposes.

ITEM 8. ***CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

The following consolidated financial statements and the related notes thereto, of Cepheid and the Reports of Independent Registered Public Accounting Firm, Ernst and Young LLP, are filed as a part of this Form 10-K.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Cepheid UK, which was acquired on November 1, 2008 and at the date of acquisition was named Stretton Scientific Limited, which is included in the Company's 2008 consolidated financial statements and constituted 1.2% and 1.5% of total and net assets, respectively, as of December 31, 2008 and 0.2% and 0.1% of revenue and net loss, respectively, for the year then ended.

Based on management's evaluation under the framework in *Internal Control – Integrated Framework,* management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2008. Ernst & Young LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of its audit, has issued an attestation report, included herein, on the effectiveness of the Company's internal control over financial reporting.

February 26, 2009

/s/ John L. Bishop	/s/ Andrew D. Miller
John L. Bishop	Andrew D. Miller
Chief Executive Officer	Senior Vice President and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Cepheid

We have audited Cepheid's internal control over financial reporting as of December 31, 2008 based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). Cepheid's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report on Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Cepheid UK, which was acquired on November 1, 2008 and at the date of acquisition was named Stretton Scientific Limited, which is included in the 2008 consolidated financial statements of Cepheid and constituted 1.2% and 1.5% of total and net assets, respectively, as of December 31, 2008 and 0.2% and 0.1% of revenue and net loss, respectively, for the year then ended. Our audit of internal control over financial reporting of Cepheid also did not include an evaluation of the internal control over financial reporting of Cepheid UK.

In our opinion, Cepheid maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Cepheid as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2008 and our report dated February 25, 2009 expressed an unqualified opinion thereon.

San Jose, California
February 25, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Cepheid

We have audited the accompanying consolidated balance sheets of Cepheid as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the index at Item 15(b). These financial statements and schedule are the responsibility of Cepheid's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cepheid at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, Cepheid changed its method of accounting for uncertain tax positions as of January 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Cepheid's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2009 expressed an unqualified opinion thereon.

San Jose, California
February 25, 2009

CEPHEID
CONSOLIDATED BALANCE SHEETS

	December 31, 2008	December 31, 2007
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 23,478	$ 16,476
Restricted cash	1,500	—
Marketable securities	—	27,550
Accounts receivable, less allowance for doubtful accounts of $20 and $37 as of December 31, 2008 and 2007, respectively	18,952	21,263
Inventory	33,498	23,821
Prepaid expenses and other current assets	4,636	2,565
Total current assets	82,064	91,675
Property and equipment, net	24,109	17,174
Investments	15,101	—
Put option	9,438	—
Other non-current assets	920	923
Intangible assets, net	36,932	40,629
Goodwill	18,556	14,844
Total assets	$ 187,120	$ 165,245
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 9,669	$ 10,587
Accrued compensation	7,919	8,573
Accrued royalties	5,953	6,913
Accrued collaboration profit sharing	2,023	522
Accrued other liabilities	6,816	4,742
Income tax payable	—	213
Current portion of deferred revenue	2,834	4,016
Bank borrowing	14,639	—
Total current liabilities	49,853	35,566
Long-term portion of deferred revenue	1,753	2,054
Other liabilities	3,549	690
Total liabilities	55,155	38,310
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, no par value; 5,000,000 shares authorized, none issued or outstanding	—	—
Common stock, no par value; 100,000,000 shares authorized, 57,663,859 and 55,611,398 shares issued and outstanding at December 31, 2008 and 2007, respectively	266,991	254,807
Additional paid-in capital	41,619	26,697
Accumulated other comprehensive income (loss)	(23)	340
Accumulated deficit	(176,622)	(154,909)
Total shareholders' equity	131,965	126,935
Total liabilities and shareholders' equity	$ 187,120	$ 165,245

The accompany notes are an integral part of these consolidated financial statements.

CEPHEID
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2008	2007	2006
	(In thousands, except per share data)		
Revenues:			
System sales	$ 51,766	$ 47,739	$ 22,737
Reagent and disposable sales	107,617	68,793	59,666
Total product sales	159,383	116,532	82,403
Other revenues	10,244	12,941	4,949
Total revenues	169,627	129,473	87,352
Costs and operating expenses:			
Cost of product sales	89,040	69,174	48,800
Collaboration profit sharing	11,089	12,256	14,974
Research and development	43,310	31,449	23,886
In-process research and development	—	—	139
Sales and marketing	29,757	22,812	14,116
General and administrative	20,861	18,269	12,354
Gain from legal settlement	(1,454)	—	—
Expense for patent related matter	—	—	3,350
Total costs and operating expenses	192,603	153,960	117,619
Loss from operations	(22,976)	(24,487)	(30,267)
Other income (expense):			
Interest and other income, net	1,225	2,731	4,402
Interest expense	(13)	(22)	(367)
Foreign currency exchange gain (loss) and other	(860)	568	247
Other income, net	352	3,277	4,282
Net loss before benefit (provision) for income taxes	(22,624)	(21,210)	(25,985)
Benefit (provision) for income taxes	911	(213)	—
Net loss	$ (21,713)	$ (21,423)	$ (25,985)
Basic and diluted net loss per share	$ (0.38)	$ (0.39)	$ (0.50)
Shares used in computing basic and diluted net loss per share	57,101	55,263	52,325

The accompany notes are an integral part of these consolidated financial statements.

CEPHEID
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders' Equity
Balance at December 31, 2005	42,755	$ 155,347	$ 7,518	$ 39	$ (107,501)	$ 55,403
Components of comprehensive loss:						
Net loss	—	—	—	—	(25,985)	(25,985)
Foreign currency translation adjustment	—	—	—	(49)	—	(49)
Net unrealized gain on available-for-sale securities	—	—	—	5	—	5
Total comprehensive loss						(26,029)
Issuance of common shares under a follow on offering (net of issuance costs of $6,312)	11,420	91,899	—	—	—	91,899
Issuance of shares of common stock under employee and director option plans	652	2,993	—	—	—	2,993
Stock-based compensation related to stock options and awards and employee stock purchase plan	—	—	7,547	—	—	7,547
Issuance of shares of common stock under employee stock purchase plan	123	893	—	—	—	893
Balance at December 31, 2006	54,950	251,132	15,065	(5)	(133,486)	132,706
Components of comprehensive loss:						
Net loss	—	—	—	—	(21,423)	(21,423)
Foreign currency translation adjustment	—	—	—	345	—	345
Total comprehensive loss						(21,078)
Issuance of shares of common stock under employee and director option plans	512	2,620	—	—	—	2,620
Stock-based compensation related to stock options and awards and employee stock purchase plan	—	—	11,632	—	—	11,632
Issuance of shares of common stock under employee stock purchase plan	149	1,055	—	—	—	1,055
Balance at December 31, 2007	55,611	254,807	26,697	340	(154,909)	126,935
Components of comprehensive loss:						
Net loss	—	—	—	—	(21,713)	(21,713)
Foreign currency translation adjustment	—	—	—	(363)	—	(363)
Total comprehensive loss						(22,076)
Issuance of shares of common stock under employee and director option plans	1,772	9,849	—	—	—	9,849
Stock-based compensation related to stock options and awards and employee stock purchase plan	—	—	14,922	—	—	14,922
Issuance of shares of common stock under employee stock purchase plan	281	2,335	—	—	—	2,335
Balance at December 31, 2008	57,664	$ 266,991	$ 41,619	$ (23)	$ (176,622)	$ 131,965

The accompany notes are an integral part of these consolidated financial statements.

CEPHEID
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2008	2007	2006
		(In thousands)	
Cash flows from operating activities:			
Net loss	$ (21,713)	$ (21,423)	$ (25,985)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	7,632	5,506	4,824
Amortization of intangible assets	4,669	4,263	2,746
Amortization of imputed interest	—	—	222
In-process research and development	—	—	139
Amortization of prepaid compensation	252	302	105
Stock-based compensation related to employees and consulting services rendered	14,064	11,120	7,330
Write-off of patented technologies licenses	406	—	—
Unrealized loss on auction rate securities	9,899	—	—
Unrealized gain on put option	(9,438)	—	—
Deferred rent	231	(110)	63
Changes in operating assets and liabilities:			
Accounts receivable	2,495	(4,555)	(1,237)
Inventory	(8,580)	(11,279)	(2,034)
Prepaid expenses and other current assets	(2,520)	(880)	(439)
Other non-current assets	(676)	169	(284)
Accounts payable and other current liabilities	811	2,313	555
Accrued expense for patent-related matter	—	(3,350)	3,350
Accrued compensation	(663)	3,967	86
Deferred revenue	(1,476)	(748)	(1,082)
Net cash used in operating activities	(4,607)	(14,705)	(11,641)
Cash flows from investing activities:			
Capital expenditures	(14,936)	(7,098)	(5,917)
Acquisition of leasehold improvements	327	—	—
Payments for technology licenses	(418)	(4,945)	(11,325)
Cost of acquisitions, net of cash acquired	(1,884)	(27,637)	(1,037)
Proceeds from the sale of fixed assets	125	23	—
Proceeds from maturities of marketable securities	2,550	55,000	47,850
Purchases of marketable securities	—	(4,800)	(104,450)
Transfer from (to) restricted cash	(983)	—	—
Net cash provided by (used in) investing activities	(15,219)	10,543	(74,879)
Cash flows from financing activities:			
Net proceeds from the sale of common shares and exercise of stock options and awards	12,183	3,675	95,785
Proceeds from bank borrowing	14,700	—	—
Principal payment of line of credit	—	—	(4,000)
Principal payments under equipment financing	—	(316)	(4,044)
Principal payments of bank borrowing	(65)	—	—
Principal payments of notes payable	—	(48)	(63)
Net cash provided by financing activities	26,818	3,311	87,678
Effect of exchange rate change on cash	10	141	(44)
Net increase (decrease) in cash and cash equivalents	7,002	(710)	1,114
Cash and cash equivalents at beginning of year	16,476	17,186	16,072
Cash and cash equivalents at end of year	$ 23,478	$ 16,476	$ 17,186
Supplemental Cash Flow Information:			
Cash paid for interest	$ 11	$ 22	$ 367

See accompanying notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

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 broad-based molecular diagnostics company that develops, manufactures, and markets fully-integrated systems for testing in the Clinical market, as well as for application in the Company's legacy Biothreat and Industrial markets. The Company's systems enable rapid, sophisticated molecular testing for organisms and genetic-based diseases by automating otherwise complex manual laboratory procedures.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries after elimination of intercompany transactions and balances. The assets and liabilities of the Company's foreign subsidiaries are translated from their respective functional currencies into United States ("U.S.") dollars at the rates in effect at the balance sheet date, and revenue and expense amounts are translated at weighted average rates during the period. Gains and losses realized from foreign currency transactions, those transactions denominated in currencies other than the foreign subsidiary's functional currency are included in interest and other income, net.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Fair Value of Financial Instruments

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157 ("SFAS 157"), "Fair Value Measurements" ("SFAS 157"), which establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements and is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157", which provides a one year deferral of the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually, until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Therefore, we adopted the provisions of SFAS 157 with respect to our financial assets and liabilities only. The partial adoption of SFAS 157 for financial assets and liabilities did not have a material impact on our consolidated financial position, results of operations, or cash flows. See Note 2 for information and related disclosures regarding our fair value measurements.

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. We adopted SFAS 159 effective January 1, 2008. See Note 2 for information regarding our fair value measurements on financial assets. The adoption of SFAS 159 did not have a material impact on our financial condition, results of operations or cash flows since the Company did not elect to apply the fair value option for any of its eligible financial instruments or other items on the January 1, 2008 effective date.

Cash, Cash Equivalents, Marketable Securities and Investments

Cash and cash equivalents consist of cash on deposit with banks, money market instruments, commercial paper and debt securities with maturities from the date of purchase of 90 days or less. Interest income includes interest, dividends, amortization of purchase premiums and discounts and realized gains and losses on sales of securities.

The Company designates marketable securities as either trading or available-for-sale and records them at fair value. Realized and unrealized gains and losses on investments are determined on the specific identification method. If designated as a trading security, unrealized gains and losses are recorded to current period operating results. If designated as an available-for-sale security, unrealized holding gains or losses are reported as a component of accumulated other comprehensive income (loss). Marketable securities with maturities greater than 90 days and less than one year are classified as short-term; otherwise they are classified as long-term. When an investment is sold, we report the difference between the sales proceeds and its carrying value (determined based on specific identification) as a capital gain or loss. An impairment charge is recognized when the decline in the fair value of a security below the amortized cost basis is determined to be other-than-temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the duration of time and the severity to which the fair value has been less than our amortized cost basis, any adverse changes in the investees' financial condition and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

The following is a summary of the Company's cash, cash equivalents and investments (in thousands):

	December 31,	
	2008	2007
Cash and cash equivalents:		
Cash	$ 18,252	$ 12,207
Money market funds	5,226	4,269
	$ 23,478	$ 16,476
Marketable securities:		
Taxable auction rate securities	$ —	$ 27,550
Investments:		
Put option	$ 9,438	$ —
Taxable auction rate securities	15,101	—
	$ 24,539	$ —

Auction Rate Securities

At December 31, 2008, our investments consisted of a portfolio of auction rate securities with a cost basis of $25.0 million is classified as trading securities and recorded at fair value in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." See discussion below for the change in classification from available-for-sale to trading securities The historical cost basis of this portfolio has been reduced by net losses on these securities of $9.9 million, which has been charged to earnings in 2008. We valued these securities using a discounted cash flow methodology with significant inputs that included credit quality of the issuer, the percentage and the types of guarantees, contractual maturity, the timing and probability of the auction succeeding or security being called and discount factors. Our auction rate securities have failed to settle at auction since March 2008. We continue to collect interest on the investments that failed to settle at auction at the maximum contractual rate. At December 31, 2008, all but two of our auction rate securities continue to carry at least an AAA rating by at least one of the rating agencies with those two carrying an AA rating. Our auction rate securities consist of investments that are backed by pools of student loans, which are principally guaranteed by the Federal Family Educational Loan Program ("FFELP"), or insured.

On November 10, 2008, we accepted a comprehensive settlement arrangement offered by UBS, the fund manager with which we hold our auction rate securities. Under the settlement, we will have the option ("the put option") to sell the auction rate securities held in our accounts with UBS to UBS at par value during the period beginning June 30, 2010 and ending July 2, 2012 (put option exercise period). In accepting the settlement arrangement, we also granted UBS the right to sell our auction rate securities at par at any time up until the expiration date of the rights and released UBS from any claims related to the marketing and sale of auction rate securities, other than claims for consequential damages. Since the settlement agreement is a legally enforceable firm commitment, the put option is recognized as a financial asset at fair value in our financial statements at December 31, 2008, and accounted for separately from the associated securities. The fair value of the put option is based on the difference in value between the par value and the fair value of the associated auction rate securities. We have elected to measure the put option at its fair value pursuant to SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115" (SFAS 159), and subsequent changes in fair value will also be recognized in respective period financial results. Since we intend to exercise the put option during the put option exercise period, we do not have the intent to hold the associated auction rate securities until recovery or maturity. We have classified these securities as trading pursuant to SFAS No. 115, "Accounting for Certain Investments in Debt and

Equity Securities" (SFAS 115), which requires changes in the fair value of these securities to be recorded in respective period financial results, which we believe will substantially offset changes in the fair value of the put option. In addition, the rights permitted us to establish a demand revolving credit line, payable on demand, in an amount equal to a specified percentage of fair value of the securities at a net no cost, meaning that the interest we pay on the credit line will not exceed the interest that we receive on the auction rate securities that we have pledged as security for the credit line. Additionally, under the terms of the settlement agreement, if UBS is able to sell our auction rate securities at par, proceeds would be utilized to first repay any outstanding balance under the demand revolving credit line. We are still able to sell the auction rate securities, but in such a circumstance, if we sold at less than par, we would not be entitled to recover the par value support from UBS.

In the fourth quarter of 2008, we recorded a charge to earnings of $9.9 million to reduce the value of our auction rate securities investments classified as trading securities, offset by a gain of $9.4 million on the put option.

Restricted Cash

Restricted cash consists of a $1.5 million certificate of deposit with a maturity less than 90 days held by a banking institution as collateral for our hedging program.

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. Accordingly, 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):

	December 31,	
	2008	2007
Raw Materials	$ 12,328	$ 9,956
Work in Process	8,629	7,550
Finished Goods	12,541	6,315
	$ 33,498	$ 23,821

Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method, and the cost is amortized over the estimated useful lives of the assets, which range from 3 to 10 years. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the assets or the term of the lease, whichever is shorter.

Property and equipment consisted of the following (in thousands):

	December 31,	
	2008	2007
Land	$ 21	$ 21
Building	2,049	1,312
Scientific equipment	16,668	11,897
Manufacturing equipment	15,797	11,768
Office furniture, computers and equipment	9,030	7,920
Leasehold improvements	10,487	7,461
	54,052	40,379
Less accumulated depreciation and amortization	(29,943)	(23,205)
	$ 24,109	$ 17,174

Intangible Assets and Goodwill

As of December 31, 2008, intangible assets consisted primarily of rights to certain patented technologies licensed from F. Hoffmann-La Roche Ltd. ("Roche") and Applera Corporation ("Applera'), (see Note 5, "Patent License Agreements and Note 7, "Collaborative Agreements and Contracts") and intangible assets acquired in the acquisition of Actigenics, Sangtec and Stretton (see Note 8, "Acquisitions").

Intangible assets related to licenses are recorded at cost, less accumulated amortization. Intangible assets related to technology and other intangible assets acquired in acquisitions 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, except for intangible assets acquired in the acquisitions of Actigenics, Sangtec and Stretton, which are amortized on the basis of economic useful life. Amortization of intangible assets is included in the accompanying consolidated statements of operations.

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. In 2008 we recorded an impairment charge of $0.4 million. No impairment charge was recorded in 2007 and 2006.

The Company annually reviews its goodwill for impairment under SFAS No. 142, "Goodwill and Other Intangible Assets". If the fair value of the Company exceeds its net book value including goodwill, then goodwill is not considered impaired. The initial step is to compare Company's fair value as determined by its market capitalization to its net book value. If the market capitalization exceeds the net book value, goodwill is presumed to be unimpaired. Otherwise, the Company would estimate expected future cash flows of its business, which operates in a number of markets and geographical regions. The Company would then determine the carrying value of its business and compare its carrying value including goodwill and other intangibles to the discounted future cash flows. If the total of future cash flows is less than the carrying amount of the assets, the Company would recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. At December 31, 2008, the Company compared its market capitalization to its net book value and determined that goodwill was not impaired.

Warranty Reserve

The Company warrants its systems 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, when handled according to product specifications, for the stated life of such products. 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 estimate of future failure rates and of the future costs of repairing any system failures during the warranty period or replacing any disposable products with defects. The activities in the warranty provision for each of the three years ended December 31, 2008 consisted of the following (in thousands):

	2008	2007	2006
Balance at beginning of year	$ 549	$ 256	$ 470
Costs incurred and charged against reserve	(210)	(210)	(451)
Accrual related to current year product sales	819	546	651
Adjustment to pre-existing warranties	(503)	(43)	(414)
Balance at end of year	$ 655	$ 549	$ 256

Revenue Recognition

In accordance with Staff Accounting Bulletin ("SAB") 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. Service revenue is recognized when the services have been provided. Shipping and handling costs are expensed as incurred and included in cost of product sales.

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 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.

Grants 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 and recoverability is reasonably assured.

Research and Development

Research and development expenses consist of costs incurred for company-sponsored and collaborative research and development activities. These costs include direct and research-related overhead expenses. The Company expenses research and development costs, including the expenses for research under collaborative agreements, as such costs are incurred.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"), using the modified prospective transition method. Under the modified prospective transition method, prior periods are not restated for the effect of SFAS 123(R). Commencing with the first quarter of 2006, compensation cost includes all 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"), options and awards issued prior to but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), and compensation for all share-based awards granted to employees and directors subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). The Company recognizes the fair value of its stock option awards as compensation expense on a straight-line basis over the requisite service period of each award, which is generally four years. Stock-based compensation to other than employees was not impacted by the adoption of SFAS 123(R) and is determined in accordance with SFAS 123 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".

Determining Fair Value Under SFAS 123(R)

Valuation and amortization method — The Company estimates the fair value of share-based payments, other than restricted stock awards granted, using the Black-Scholes option-pricing formula and a single option award approach. The fair value of restricted stock awards is measured at the market price of non-restricted stock at the date of grant. This fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

Expected Term—The expected term of the award represents the period that the Company's stock-based awards are expected to be outstanding and was determined based on historical experience, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its stock-based awards.

Expected Volatility— Volatility is a measure of the amounts by which a financial variable such as stock price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. The Company uses the historical volatility for the past 5 years to estimate expected volatility, which matches the expected term of the option grant.

Risk-Free Interest Rate—The Company bases the risk-free interest rate used in the Black-Scholes valuation method on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the expected term of a stock award.

Estimated Forfeitures — When estimating forfeitures, the Company considers voluntary termination behavior as well as analysis of actual option forfeitures.

The adoption of SFAS 123(R) also requires additional accounting related to income taxes. Due to the full valuation allowance provided on its net deferred tax assets, the Company has not recorded any tax benefit attributable to stock-based compensation expense.

Foreign Currency Hedging

The Company accounts for derivative instruments in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", an amendment of SFAS No. 133 and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 133, 138, and 149 require that all derivatives, including foreign exchange contracts, be recognized in the balance sheet in other assets or liabilities at their fair value. The Company utilizes forward contracts in order to reduce financial market risks. These instruments are used to hedge foreign currency exposures of underlying assets or liabilities. The Company's accounting policies for these instruments are based on whether they meet the criteria for designation as hedging transactions. Changes in fair value of derivatives that are designated as cash flow hedges, are highly effective and qualify as hedging instruments, are recorded in other comprehensive income until the underlying hedged item is recognized in earnings. Any ineffective portion of a derivative's change in fair value is immediately recognized in earnings. Changes in fair value of derivatives that do not qualify as hedging instruments are recorded in earnings. The fair value of foreign currency contracts is estimated based on the spot rate of the various hedged currencies as of the end of the period. As of December 31, 2008, we had two outstanding foreign exchange forward contracts that do not qualify for hedge accounting with approximately $0.1 million of pre-tax gain for the estimated gain on the outstanding foreign currency exchange forward contracts.

Comprehensive Income (Loss)

Comprehensive loss includes net loss as well as other comprehensive income or loss. The Company's other comprehensive income or loss consists of foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. Total accumulated comprehensive income (loss) in the accompanying consolidated statements of shareholders' equity at December 31, 2008 and 2007 consisted entirely of cumulative translation adjustments.

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. Shares used in diluted net loss per share calculations exclude anti-dilutive common stock equivalent shares, consisting of stock options and restricted awards. These anti-dilutive common stock equivalent shares totaled 5,287,000, 8,905,000 and 7,402,000, at December 31, 2008, 2007 and 2006, respectively.

Income Taxes

In June 2006, the 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. As a result of the implementation of FIN 48 on January 1, 2007, the Company recognized no material adjustment in the liability for unrecognized income tax benefits.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. For the year ended December 31, 2008, the Company did not recognize any interest or penalties related to uncertain tax positions in the consolidated statements of operations, and at December 31, 2008, the Company had no accrued interest or penalties.

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 GAAP, 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. In February 2008, the FASB issued FASB FSP 157-2 which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. Effective January 1, 2008, the Company adopted SFAS 157 for financial assets and liabilities recognized at fair value on a recurring basis. The partial adoption of SFAS 157 for financial assets and

liabilities did not have a material impact on our consolidated financial position, results of operations or cash flows. Effective January 2009, the Company will adopt SFAS 157 for all nonfinancial assets and nonfinancial liabilities. Since the adoption of SFAS 157 for nonfinancial assets and liabilities will be applied prospectively, there will not be a material impact on our consolidated financial position, results of operations or cash flows upon adoption.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations", and SFAS No. 160, "Accounting and Reporting of Non-Controlling Interest in Consolidated Financial Statements", an Amendment of ARB No. 51. These new standards will significantly change the financial accounting and reporting of business combination transactions and non-controlling (or minority) interests in consolidated financial statements. We will be required to adopt SFAS No. 141(R) and SFAS No. 160 on or after December 15, 2008. The Company does not currently have any non-controlling interests in its subsidiaries, and accordingly the adoption of SFAS No. 160 is not expected to have a material impact on its financial statements. The Company will adopt SFAS 141(R) for business combinations occurring at or subsequent to January 1, 2009.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative instruments and Hedging Activities". The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable better understanding of the effects on financial position, financial performance, and cash flows. The effective date is for fiscal years and interim periods beginning after November 15, 2008. We do not expect the adoption of this statement to have any impact on our consolidated financial statements.

In April 2008, the FASB issued FSP 142-3, "Determining the Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors to be considered in determining the useful life of intangible assets. Its intent is to improve the consistency between the useful life of an intangible asset and the period of expected cash flows used to measure its fair value. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. We are currently assessing the impact of FSP 142-3 on our consolidated financial statements.

In May 2008, FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles". This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP (the GAAP hierarchy). This statement will not result in a change in current practice. This statement is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles". The adoption of this statement is not expected to have a material effect on our financial position, cash flows or results of operations.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market For That Asset Is Not Active" ("FSP No. FAS 157-3"). FSP No. FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active. FSP No. FAS 157-3 became effective upon issuance, including prior periods for which financial statements have not been issued. The Company's adoption of FSP No. FAS 157-3 did not have a material impact on our consolidated financial position or results of operations.

2. Fair Value

SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and requires enhanced disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the third unobservable that may be used to measure fair value. The three levels of inputs are the following:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In accordance with SFAS 157, the following table represents the fair value hierarchy for our financial assets (cash equivalents, put option and investments) measured at fair value on a recurring basis as of December 31, 2008 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash equivalents - money market funds	$ 5,226	$ —	$ —	$ 5,226
Put option	—	—	9,438	9,438
Investments - taxable auction rate securities	—	—	15,101	15,101
	$ 5,226	$ —	$ 24,539	$ 29,765

Level 3 assets consist of auction rate securities whose underlying assets are student loans, most of which are guaranteed by the federal government and the put option. In February 2008, auctions began to fail for these securities, and each auction since then has failed. Based on the overall failure rate of these auctions, the frequency of the failures, and the underlying maturities of the securities, a portion of which are greater than 30 years, we have classified auction rate securities as long-term assets on our consolidated balance sheet as of December 31, 2008. These investments were recorded at fair value as of December 31, 2008. The following table provides a summary of changes in fair value of our significant unobservable inputs (Level 3) from January 1, 2008 to December 31, 2008 (in thousands):

	Level 1	Level 3
Balance at January 1, 2008	$ 27,550	$ —
Net settlements	(2,550)	—
Transfer	(25,000)	25,000
Unrealized loss included in current period earnings	—	(9,899)
Acquisition of put option	—	9,438
Balance at December 31, 2008	$ —	$ 24,539

Our investment portfolio of auction rate securities is structured with short-term interest rate reset dates of generally less than 30 days, but with contractual maturities that are well in excess of ten years. Our auction rate securities consist of investments that are backed by pools of student loans, which are principally guaranteed by the Federal Family Educational Loan Program (“FFELP”), or insured. We believe that the credit quality of these securities is high based on these guarantees. We determined the fair market values of our financial instruments based on the fair value hierarchy established in SFAS 157, which requires an entity to maximize the use of observable inputs (Level 1 and Level 2 inputs) and minimize the use of unobservable inputs (Level 3 inputs) when measuring fair value. Until the first quarter of 2008, the fair values of our auction rate securities were determinable by reference to frequent successful Dutch auctions of such securities, which settled at par. Therefore, at the adoption date, we had categorized our investments in auction rate securities as Level 1. Given the current failures in the auction markets to provide quoted market prices of the securities, as well as the lack of any correlation of these instruments to other observable market data, we valued these securities using a discounted cash flow methodology with the most significant input categorized as Level 3. Significant inputs that went into the model were the credit quality of the issuer, the percentage and the types of guarantees, contractual maturity, the timing and probability of the auction succeeding or the security being called and discount factors.

On November 10, 2008, we accepted a comprehensive settlement arrangement offered by UBS, the fund manager with which we hold our auction rate securities. Under the settlement, we will have the option (“the put option”) to sell the auction rate securities held in our accounts with UBS to UBS at par value during the period beginning June 30, 2010 and ending July 2, 2012. In accepting the settlement arrangement, we also granted UBS the right to sell our auction rate securities at par at any time up until the expiration date of the rights and released UBS from any claims related to the marketing and sale of auction rate securities, other than claims for consequential damages. Since the settlement agreement is a legally enforceable firm commitment, the put option is recognized as a financial asset at fair value in our financial statements at December 31, 2008, and accounted for separately from the associated securities. The fair value of the put option is based on the difference in value between the par value and the fair value of the associated auction rate securities. We have elected to measure the put option at its fair value pursuant to SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115” (SFAS 159), and subsequent changes in fair value will also be recognized in current period earnings. Since we intend to exercise the put option during the period beginning June 30, 2010 and ending July 2, 2012, we do not have the intent to hold the associated auction rate securities until recovery or maturity. We have classified these securities as trading pursuant to SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities” (SFAS 115), which requires changes in the fair value of these securities to be recorded in current period earnings, which we believe will substantially offset changes in the fair value of the put option. In addition, the rights permitted us to establish a demand revolving credit line in an amount equal to the par value of the securities at a net no cost. We are still able to sell the auction rate securities on our own, but in such a circumstance, we would lose the par value support from UBS.

In the fourth quarter of 2008, we recorded a charge to other income (expense) of $9.9 million to reduce the value of our auction rate securities investments classified as trading securities, offset by a gain of $9.4 million upon the initial recognition of the estimated fair value of the put option.

3. Intangible Assets

Intangible assets related to licenses are recorded at cost, less accumulated amortization. Intangible assets related to technology and other intangible assets acquired in acquisitions 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, except for intangible assets acquired in the acquisitions of Actigenics, Sangtec and Stretton, which are amortized on the basis of economic useful life. Amortization of intangible assets is primarily included in cost of product sales in the accompanying condensed consolidated statements of operations.

The recorded value and accumulated amortization of major classes of intangible assets were as follows (in thousands):

	Recorded Value	Accumulated Amortization	Net Book Value
Balance, December 31, 2008			
Licenses	$ 40,710	$ 13,456	$ 27,254
Technology acquired in acquisitions	8,613	905	7,708
Other intangible assets acquired in acquisitions	3,130	1,160	1,970
	$ 52,453	$ 15,521	$ 36,932
Balance, December 31, 2007			
Licenses	$ 40,885	$ 10,159	$ 30,726
Technology acquired in acquisitions	8,613	306	8,307
Other intangible assets acquired in acquisitions	2,170	574	1,596
	$ 51,668	$ 11,039	$ 40,629
Balance, December 31, 2006			
Licenses	$ 36,388	$ 6,737	$ 29,651
Technology acquired in acquisitions	813	39	774
	$ 37,201	$ 6,776	$ 30,425

In 2008 we recorded an impairment charge of $0.4 million. No impairment charge was recorded in 2007 and 2006. Included in licenses was $19.9 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 $14.2 million, $15.5 million and $16.7 million at December 31, 2008, 2007 and 2006, respectively.

Amortization expense of intangible assets was $4.7 million, $4.3 million and $2.8 million for the years ended December 31, 2008, 2007 and 2006, respectively. The expected future annual amortization expense of intangible assets recorded on the Company's consolidated balance sheet as of December 31, 2008 is as follows, assuming no impairment charges (in thousands):

For the Years Ending December 31,	Amortization Expense
2009	$ 5,158
2010	5,067
2011	4,920
2012	4,812
2013	5,387
Thereafter	11,588
Total expected future annual amortization	$ 36,932

4. Segment and Significant Concentrations

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

The Company currently sells its products through its direct sales force and through third-party distributors. For the years ended December 31, 2008, 2007 and 2006, there was one customer that accounted for 23%, 36% and 58% of total products sales, respectively. The Company has distribution agreements with several companies to distribute products in the U.S. and 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 years ended December 31, 2008, 2007 and 2006:

	Years Ended December 31,		
	2008	2007	2006
Product Sales Geographic information:			
North America	79%	80%	88%
International	21%	20%	12%
Total product sales	100%	100%	100%

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

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of bank deposits and accounts receivable. The Company maintains its portfolio of cash equivalents in short-term commercial paper, auction rate securities and money market funds. The fair value of the auction rate securities and put option under our investment portfolio are subject to UBS credit risk. The Company's accounts receivable are derived primarily from sales to customers. The Company performs ongoing credit evaluations of its customers and limits the amount of credit extended when deemed necessary, but generally requires no collateral. In addition, the Company maintains an allowance for potential doubtful accounts.

There was one customer whose accounts receivable balance represented 14% of total receivables as of December 31, 2008 and 22% of total receivables as of December 31, 2007. The Company relies on several companies as its sole source for various materials used in its manufacturing process. Any extended interruption in the supply of these materials could result in the failure to meet customer demand.

5. Patent License Agreements

In April 2004, the Company entered into a patent license agreement with Applera, through its ABI and its Celera Diagnostics joint venture, for a non-exclusive worldwide license to make, use, and sell the Company's products incorporating technology covered by Applera patents. The Company also entered into a patent license agreement with Roche, effective July 1, 2004, for a non-exclusive worldwide license to make, use, and sell the Company's products incorporating technology covered by Roche patents. Under the license agreements, the Company agreed to pay aggregate license fees of $32.2 million, of which $23.5 million was paid in 2005 and $8.7 million was paid in 2006. In connection with the license agreements, the Company recorded intangible assets of $31.1 million, representing the present value of license fee obligations which is net of imputed interest of $1.1 million. The effective interest rate used to calculate the present value of the discounted payments was 4.0% for both the Roche and Applera licenses. In June 2006, the Applera patent license agreement was expanded to include additional Company products, for which the Company paid an additional $0.5 million. The intangible assets related to the Applera and Roche licenses are amortized on a straight-line basis over their useful lives of approximately 10 and 15 years, respectively, with the amortization recorded as part of the cost of product sales. The Company also paid approximately $1.2 million in back royalties related to the Applera license, which was expensed during the quarter ended March 31, 2004.

The Company also agreed to pay Applera and Roche ongoing royalties on sales of any products incorporating the licensed patents. Resulting product royalties are recorded as part of the cost of product sales when the related product sales are recognized.

In September 2005, the Company entered into a license agreement with Abaxis, Inc. ("Abaxis"), pursuant to which Abaxis granted the Company a non-exclusive, worldwide, royalty-bearing license to certain Abaxis patents relating to lyophilization technology in accordance with the provisions specified in the agreement. Under the agreement, the Company will be able to make, distribute and sell products for nucleic acid based amplification assays. In exchange for the license rights, the Company agreed to (i) make an upfront license payment of $0.5 million, (ii) pay royalties during the term of the agreement and (iii) pay a yearly license maintenance fee during the term of the agreement, which fee will be creditable against any royalties due during such calendar year.

In November 2005, Cepheid entered into a license agreement with DxS Limited ("DxS"), a private United Kingdom based company, pursuant to which DxS granted Cepheid a non-exclusive, worldwide, royalty-bearing license to the DxS Scorpions patents and other intellectual property rights relating to its Scorpions technology for the real-time PCR detection of nucleic acid amplification. This amends a December 2004 agreement, which provided for license rights to develop and commercialize license technology in the environmental, veterinarian, forensics identity relationship testing, and agricultural fields. Under the Agreement, and subject to certain limitations set forth therein, Cepheid will be able to use the licensed rights to develop and sell assay products incorporating the licensed technology in the human in vitro diagnostics field.

In September 2006, Cepheid entered into a sublicense agreement with Abbott Laboratories ("Abbott"), pursuant to which Abbott granted Cepheid a non-exclusive, world-wide, non-transferable right to Abbott's exclusive license to certain patents from the Baylor College of Medicine. Under this sublicense agreement, the Company will be able to make, use, distribute and sell products incorporating the patented technology generally characterized as multiple genomic DNA amplification for deletion detection. In September 2006, Cepheid also entered into a license agreement with Abbott, pursuant to which Abbott granted Cepheid a non-exclusive, world-wide, non-transferable right to a certain Abbott patent. Under this license agreement, the Company will be able to make, use, distribute and sell products incorporating the patented technology generally characterized as detection of cervical chlamydia trachomatis infection. License payments for these agreements totaled $2.0 million. The intangible assets related to these sublicenses are amortized on a straight-line basis over their useful lives of approximately 7 and 9 years, respectively, with the amortization recorded as part of the cost of product sales.

In January 2007, Cepheid entered into a sublicense agreement with bioMerieux SA, pursuant to which bioMerieux SA 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 SA with the right for bioMerieux SA to sub-license. Under the sublicense agreement, and subject to certain limitations set forth therein, Cepheid is 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 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.

6. Collaboration Profit Sharing

Collaboration profit sharing represents the amount that the Company pays to ABI under our collaboration agreement to develop reagents for use in the Biohazard Detection System ("BDS") developed for the United States Postal Service ("USPS"). Under the agreement, computed gross margin on anthrax cartridge sales are shared equally between the two parties. As of December 31, 2008 and 2007, the accrued profit sharing liability was $2.0 million and $0.5 million, respectively. Collaboration profit sharing expense was $11.1 million, $12.3 million and $15.0 million for the years ended December 31, 2008, 2007 and 2006. The total revenues and cost of sales related to these cartridge sales are included in the respective balances in the consolidated statement of operations.

7. Collaborative Agreements and Contracts

bioMerieux, Inc.

In December 2003, the Company entered into an agreement with bioMerieux, Inc. for bioMerieux to develop DNA testing products using its proprietary nucleic acid sequence-based amplification technology to be run on systems employing the Company's GeneXpert systems. Under the agreement, bioMerieux has paid the Company a $10.0 million license fee, and an additional $5.0 million payment will become due when and if bioMerieux commercializes its first product based on our technology. The Company may also receive potential product purchases and royalty payments on end-user GeneXpert test cartridge sales under the agreement. The $10.0 million license fee received from bioMerieux was deferred and is being amortized over the period of approximately five years, which represents the estimated period of our continuing involvement under this agreement.

Infectio Diagnostic, Inc./GeneOhm Sciences, Inc.

In November 2003, the Company entered into a series of agreements with Infectio Diagnostics, Inc. ("IDI"). IDI merged with GeneOhm Sciences, Inc. in 2004. GeneOhm Sciences, Inc. was acquired by Becton, Dickson and Company ("BDC") in February 2006. Under these agreements, the Company received non-exclusive worldwide, excluding Canada, distribution rights to IDI tests for GBS, MRSA and VRE that have been configured for use with the SmartCycler system. The distribution rights relating to tests for MRSA were terminated in November 2006, and the distribution rights relating to GBS terminated in April 2007. In the event that BDC introduces a VRE product for the SmartCycler system, our distribution rights relating to VRE tests will terminate two years from the date of such introduction. IDI received non-exclusive worldwide rights to distribute the Company's SmartCycler system for use with IDI tests. Such IDI distribution rights, now owned by BDC, had an initial term that expired in November 2008.

ABI and Northrop Grumman Corporation

In October 2002, the Company entered into a collaboration agreement with ABI to develop reagents for use in the USPS BDS program, which was developed by the consortium led by Northrop Grumman Corporation. Under the agreement, reagents will be manufactured by ABI for packaging by the Company into its GeneXpert test cartridges and sold by the Company for use in the BDS. This agreement calls for the computed gross margin on sales of anthrax cartridges for the USPS BDS program to be equally shared between the two parties.

In August 2007, the Company entered into a five-year master purchase order with Northrop Grumman for the purchase of up to $200 million in anthrax test cartridges and associated materials. The agreement covers the USPS fiscal years of 2007 through 2011. Under the terms of the agreement, the purchase quantity of anthrax tests will be determined on an annual basis, based on the USPS fiscal year of October 1 through September 30. We have received notice that expected test purchases for fiscal 2009 will be approximately one million cartridges.

Lawrence Livermore National Laboratory

The Company has a worldwide exclusive license with Lawrence Livermore National Laboratory ("LLNL") to use or sublicense certain patent rights and to make, have made, import, and use certain licensed products relating to the patent rights for the use of rapid thermal cycling technology with real time optical detection for nucleic acid amplification. The Company paid LLNL an issuance fee for this technology in 1997. In addition, for any product containing the licensed technology, the Company is required to pay royalties to LLNL based on net sales.

Foundation for Innovative New Diagnostics

In May 2006, Cepheid entered into an agreement with the Foundation for Innovative New Diagnostics ("FIND") to develop a simple, rapid test that can detect mycobactrium tuberculosis and associated rifampin resistance from human sputum samples. Under the agreement, Cepheid is responsible for the development of a 6-color GeneXpert system to accomplish such test and the development of an enhanced manufacturing line for the manufacture of test cartridges used in the test. FIND will reimburse Cepheid at agreed upon amounts. The term of the development portion of the agreement was 30 months, which was subsequently extended an additional five months. The supply term of the agreement is for twelve years, unless terminated by either party in accordance with relevant provisions of the agreement.

bioMerieux SA

In January 2007, the Company entered into a collaboration agreement with bioMerieux SA for the development, production and marketing of a line of sepsis 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 SA will market and distribute these test products on an exclusive worldwide basis. Each party will bear its own costs of joint development. Cepheid will sell the products to bioMerieux SA 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.

8. Acquisitions

Stretton

In November 2008, the Company purchased 100% of the stock of Stretton Scientific Limited ("Stretton"), a United Kingdom privately held distributor of scientific diagnostic, measuring and monitoring equipment based in Stretton, United Kingdom. The acquisition is expected to augment the Company's newly established UK-based direct sales team as Stretton has relationships with a broad group of medical customers including the National Health Service, medical universities and commercial customers.

The results of operations of Stretton and the estimated fair market values of the acquired assets and liabilities have been included in the Consolidated Financial Statements since the date of acquisition. Pro forma consolidated statements of operations for this acquisition are not shown, as they would not differ materially from reported results. The acquired finite-lived intangible assets are being amortized over the estimated useful life in proportion to the economic benefits consumed, which for some intangible assets are approximated by using the straight-line method.

Purchase Price Allocation

The acquisition was accounted for as a purchase transaction in accordance with SFAS No. 141, "Business Combinations"; 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 $2.3 million, including $2.2 million cash (net of $0.1 million cash acquired) and $0.1 million of direct acquisition costs. The purchase agreement provides for cash holdbacks from the purchase price of $0.3 million and $0.2 million to be paid one and two years, respectively, from the acquisition date as security for the seller's indemnification of obligations. The purchase did not include any in-process research and development intangible assets, technology assets or patent assets.

The following table summarizes the 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).

Current assets	$ 558
Property, plant and equipment	103
Intangible assets - customer relationships, trade name, and non-compete agreements	960
Current liabilities	(376)
Goodwill	1,042
Total consideration	$2,287

Purchased Intangible Assets

The following table presents details of the purchased finite-lived intangible assets acquired in the Stretton acquisition (in thousands):

	Fair Value (in thousands)	Useful Life (in years)
Customer relationships	$ 860	7
Trade name	30	1
Non-compete agreements	70	3
	$ 960	

The following tables present details of our total purchased finite-lived intangible assets as of December 31, 2008 (in thousands):

	Gross	Accumulated Amortization	Net
Customer relationships	$ 860	$ (38)	$ 822
Trade name	30	(3)	27
Non-compete agreements	70	(2)	68
Total	$ 960	$ (43)	$ 917

The estimated future amortization expense of purchased finite-lived intangible assets as of December 31, 2008 is as follows (in thousands):

Year ending December 31,	Amount
2009	$ 245
2010	196
2011	143
2012	101
2013	68
Thereafter	164
Total	$ 917

In performing the purchase price allocation, the Company considered, among other factors, its intention for future use of the acquired assets, analyses of historical financial performance and estimates of future performance of Stretton's sales team. The fair value of intangible assets was based in part on a valuation completed by a third-party valuation firm using discounted cash flow and income approaches and other valuation techniques, as well as estimates and assumptions provided by the Company.

Sangtec

On February 14, 2007, Cepheid completed the purchase of 100% of the outstanding stock of Sangtec, a company located in Bromma, Sweden. Sangtec was a broad-based PCR molecular diagnostics company that developed and manufactured products for standardized nucleic acid testing of infectious diseases. The acquisition brought Cepheid a line of products for potential use in managing infections of immuno-compromised patients, a reagent manufacturing base in Europe and a research and development operation to develop and expand its clinical test products.

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 $30.2 million, including $29.4 million cash (net of $0.6 million cash acquired) and $0.8 million direct acquisition costs, including an increase in goodwill of $2.7 million and long-term liabilities by the same amount during the third quarter of 2008 associated with the establishment of a deferred tax liability. 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).

Current assets	$ 3,571
Property, plant and equipment	1,337
Intangible assets	9,970
Current liabilities	(2,197)
Goodwill	17,514
Total consideration	$30,195

In performing the purchase price allocation, the Company considered, among other factors, its intention for future use of the acquired assets, analyses of historical financial performance and estimates of future performance of Sangtec's products. The fair value of intangible assets was based in part on a valuation completed by a third-party valuation firm using a discounted cash flow and income approaches and other valuation techniques, as well as estimates and assumptions provided by he Company. The acquired intangible assets consisted of the following:

	Fair Value (in thousands)	Useful Life (in years)
Existing technology	$ 7,800	9
Contract manufacturing agreement	1,700	5
Distributor relationships	400	9
Trademark	70	3
	$ 9,970	

Existing technology is comprised of a proprietary diagnostic product line, affigene, The affigene product is a CE-labeled, standardized assay designed to provide diagnostic guidance in the infectious disease and oncology fields. Existing technology also includes a combination of processes and patents related to the design and development of Sangtec's products. The contract manufacturing agreement relates to the revenue generated from two contracts which expire in 2010 and 2011 and have minimum commitments.

The amortization expense related to the existing technology and contract manufacturing was recorded as cost of product sales, and the amortization expense related to distributor relationships and trademark was recorded as selling, general and administrative expense. Total amortization expense recorded for the years ended December 31, 2008 and 2007 was $1.0 and $0.7 million respectively.

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):

	Years Ended December 31,	
	2007	2006
Total revenues	$ 130,671	$ 95,829
Net loss	(22,026)	(29,037)
Basic and diluted net loss per share	(0.40)	(0.55)

Actigenics

In August 2006, the Company purchased 100% of the stock of Actigenics, a French micro RNA research and services company. The acquisition gave Cepheid direct access to micro RNA markers used in diagnostic and therapeutic products and the related discovery, validation and development processes. Cepheid paid $1.2 million in cash. In addition, Cepheid assumed approximately $0.7 million of liabilities, and acquired $0.2 million of tangible assets.

Of the $1.2 million paid, $0.7 million represented deferred prepaid compensation expense to be recognized over a service period of three years from the August 2006 acquisition date. This deferred compensation expense is being amortized on a straight line basis.

The acquisition was accounted for as a purchase transaction in accordance with SFAS 141, 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 results of Actigenics operations have been included in the Company's consolidated results of operations from the acquisition date. Pro forma results of operations have not been presented because the effect of the acquisition was not material.

The purchase price was allocated as follows (in thousands):

Deferred compensation expense	$ 730
Marker technology	591
Discovery and validation technology	197
In-process research and development	139
Liabilities assumed, net of assets acquired	(505)
Total allocation of purchase price	$1,152

The marker technology and discovery and validation technology will be amortized on a straight-line basis over ten and six year periods, respectively. Immediately subsequent to the acquisition date, in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method—an interpretation of FASB Statement No. 2", $0.1 million of in-process research and development intangible assets with no alternative future use was written off.

9. Commitments, Contingencies and Legal Matters

Facility Leases

The Company leases its Sunnyvale, California headquarters under several operating leases. The primary lease expires in March 2012 and provides for a three percent annual base rent increase. In April 2007, the Company entered into a sublease of additional office and manufacturing space that expires in September 2009. In December 2005, the Company also entered into a lease for additional warehouse space that expires in September 2010. In May 2005, the Company entered into a facility lease for a research and development center in Bothell, Washington that expires in August 2011. In Bromma, Sweden, the Company leases office and manufacturing space pursuant to a lease that expires in December 2009. Minimum annual rental commitments under facility operating leases at December 31, 2008 are as follows (in thousands):

Years Ending December 31,	
2009	$3,612
2010	2,772
2111	2,654
2112	839
2113	31
Total minimum payments	$9,908

Rent expense for the years ended December 31, 2008, 2007 and 2006 was $3.4 million, $2.6 million and $1.9 million, respectively.

Contingencies

The Company responds to claims arising in the ordinary course of business. In certain cases, management has accrued estimates of the amounts it expects to pay upon resolution of such matters, and such amounts are included in other accrued liabilities. Should the Company not be able to secure the terms it expects, these estimates may change and will be recognized in the period in which they are identified. Although the ultimate outcome of such claims is not presently determinable, management believes that the resolution of these matters will not have a material adverse effect on the Company's financial position, results of operations and cash flows.

Legal Matters

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 provided that the parties 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 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 a fiscal 2006 expense.

On December 25, 2008 we entered into a Settlement Agreement and Mutual Release ("Roche Settlement Agreement") with Roche Molecular Systems, Inc. ("RMS") regarding the cancellation by RMS of outstanding purchase orders as well as future purchasing requirements under a previously negotiated supply agreement with us. Pursuant to the agreement, RMS agreed to pay us $2.1 million as full and complete consideration for all cancelled orders and failure to meet purchasing requirements under the supply agreement. Approximately $0.7 million of the consideration was applied against certain inventory purchases that we had made in anticipation of building product to ship to Roche. The remaining $1.4 million was recorded as a gain. We received the payment in January 2009.

10. Shareholders' Equity

Common Stock

On March 13, 2006, the Company completed an underwritten public offering of 10,000,000 shares of common stock at a price of $8.60 per share and received proceeds of approximately $80.6 million, net of $5.4 million expenses. On April 5, 2006, the underwriters exercised their over allotment option and purchased an additional 1,419,910 shares of common stock at a price of $8.60 per share, and the Company received additional proceeds of $11.3 million, net of $0.9 million expenses.

Stock Option Plans

On April 27, 2006, the Company's shareholders approved the 2006 Equity Incentive Plan ("2006 Plan"), which was approved by the Board in February 2006. On April 27, 2006, the Board also terminated the Company's 1997 Stock Option Plan ("1997 Plan"). No new grants will be made under the 1997 Plan, and options granted or shares issued under the 1997 Plan that were outstanding on the date the 1997 Plan was terminated will remain subject to the terms of the 1997 Plan. Shares of common stock reserved for issuance under the 2006 Plan include (i) an initial authorization of 3,800,000 shares of common stock, (ii) shares reserved but unissued under the 1997 Plan as of the date the 1997 Plan was terminated and (iii) shares subject to awards granted under the 1997 Plan that are cancelled, forfeited or repurchased by the Company or expire after the 1997 Plan termination. On April 24, 2008, shareholders approved the increased the number of shares of common stock reserved for issuance under the 2006 Plan by 1,800,000.

Under the 2006 Plan, the Company may grant incentive stock options ("ISOs") and non-qualified stock options ("NQSOs"), restricted stock awards ("RSAs"), stock bonus awards ("SBAs"), stock appreciation rights ("SARs"), restricted stock units ("RSUs") and performance share awards ("PSAs"). ISOs may be granted only to employees and directors of the Board, and all other awards may be granted to Company employees and directors and to consultants, independent contractors and advisors of the Company for services rendered. Any award, other than a stock option or a SAR, shall reduce the number of shares available for issuance by 1.75 shares for each share subject to such award (for a stock option or a SAR this ratio shall remain 1:1). The 2006 Plan is administered by the Compensation Committee of the Board ("Committee"). The following provides a general description of each type of award under the 2006 Plan. As of December 31, 2008, we had 1,381,917 shares of our common stock reserved for future issuance under the 2006 Plan. Shares issued in connection with awards made under the 2007 Plan are generally issued as new stock issuances.

Stock options may be granted at no less than the fair market value per share of common stock on the date of the grant (at 110% of fair market value for ISOs granted to 10% shareholders), expire not later than 7 years from the date of grant (5 years from the date of grant for ISOs granted to 10% shareholders) and generally vest 25% one year after the date of grant and then on a pro rata basis over the following 36 months.

RSAs may be granted at a purchase price that is less than fair market value on the date of grant, and the restrictions are determined by the Committee and may be based on years of service with the Company or completion of performance goals during a period. The Committee will determine the extent that the RSA is earned prior to the payment for the shares awarded.

SBAs may be granted for past or future services and may contain restrictions based on years of service with the Company or completion of performance goals during a period. No payment will be required for shares awarded under an SBA. Payments to recipients of an SBA may be in the form of cash, shares of common stock, or a combination thereof, based on the fair market value of shares earned under the SBA. The Committee will determine the number of shares to be awarded under the SBA and the extent that the SBA is earned prior to the payment for the shares awarded.

SARs are awards for past or future services that may be settled in cash or shares of common stock, including restricted stock, having a value equal to the number of shares subject to the SAR multiplied by the difference between the fair market value on the date of grant and the exercise price. The Committee determines the terms of each SAR, including the number of shares of common stock subject to the SAR, the exercise price and the times during which the SAR may be settled, consideration to be made on settlement, and effect of the participant's termination. If SARs are awarded based on performance goals, the Committee will determine the extent that the SAR is earned. SARs may be granted at an exercise price that may be less than fair market value per share of common stock on the date of grant, may be exercisable at one time or from time to time, and have a term not to exceed seven years.

RSUs are awards for past or future services that may be settled in cash or shares of common stock, including restricted stock. The Committee determines the terms of each RSU, including the number of shares of common stock subject to the RSU, the

times during which the RSU may be settled, consideration to be made on settlement, and effect of the participant's termination. If RSUs are awarded based on performance goals, the Committee will determine the extent that the RSU is earned. The number of shares subject to the RSU may be fixed or may vary depending on in accordance with performance goals as determined by the Committee. While the RSU shall be paid currently, under certain circumstances the Committee may permit the participant to defer settlement of the RSU.

PSAs are awards denominated in shares of common stock that may be settled in cash or issuance of such shares (which may consist of restricted stock). The Committee will determine the terms of each PSA, including the number of shares of common stock subject to the PSA, the performance factors and period that shall determine the time and extent to which each PSA shall be settled, consideration to be made on settlement, and effect of the participant's termination. The Committee will determine the extent that the PSA is earned. The number of shares subject to the PSA may be fixed or may vary in accordance with performance goals as determined by the Committee.

A summary of option activity under all plans is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, December 31, 2005	6,643,899	$ 6.53		
Granted	2,127,575	$ 8.68		
Exercised	(641,920)	$ 4.59		
Forfeited	(737,548)	$ 8.62		
Outstanding, December 31, 2006	7,392,006	$ 6.53		
Granted	2,091,867	$ 12.36		
Exercised	(410,644)	$ 6.38		
Forfeited	(168,567)	$ 9.66		
Outstanding, December 31, 2007	8,904,662	$ 8.48		
Granted	2,108,875	$ 20.94		
Exercised	(1,749,590)	$ 5.63		
Forfeited	(257,661)	$ 16.47		
Outstanding, December 31, 2008	9,006,286	$ 11.72	5.31	$ 14,523,458
Exercisable, December 31, 2008	4,993,738	$ 8.22	4.91	$ 12,861,376
Vested and expected to vest, December 31, 2008	8,256,029	$ 11.42	5.27	$ 14,125,091

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (i.e., the difference between our closing stock price of $10.38 on the last trading day of 2008 and the exercise price, times the number of shares for options where the exercise price is below the closing stock price) that would have been received by the option holders had all option holders exercised their options on that date. This amount changes based on the fair market value of our stock. The total intrinsic value of options actually exercised was $37.0 million, $4.6 million, and $2.7 million for the years ended December 31, 2008, 2007, and 2006, respectively.

The following table summarizes information about options outstanding and exercisable at December 31, 2008:

	Options Outstanding		Options Exercisable	
Exercise Price	Number of Shares (in 000s)	Weighted Average Exercise Price	Number of Shares (in 000s)	Weighted Average Exercise Price
$1.50 to $4.33	1,015	$ 3.41	1,015	$ 3.41
$4.75 to $7.38	925	$ 7.11	836	$ 7.08
$7.39 to $8.88	1,190	$ 8.49	790	$ 8.50
$8.93 to $9.11	1,065	$ 9.07	681	$ 9.06
$9.13 to $10.74	921	$ 9.60	788	$ 9.63
$10.79 to $11.85	361	$ 11.26	277	$ 11.23
$11.86 to $11.94	1,078	$ 11.94	434	$ 11.94
$11.95 to $19.66	457	$ 15.27	130	$ 15.02
$19.85 to $19.85	1,219	$ 19.85	—	$ —
$20.01 to $32.05	775	$ 24.25	43	$ 22.03
	9,006	$ 11.72	4,994	$ 8.22

A summary of all award activity, which consists of RSAs, is as follows:

	Shares	Weighted Average Grant Date Fair Value
Outstanding, December 31, 2005	—	$ —
Granted	20,000	$ 8.00
Vested	—	$ —
Outstanding, December 31, 2006	20,000	$ 8.00
Granted	96,000	$ 14.73
Vested	(25,250)	$ 13.64
Outstanding, December 31, 2007	90,750	$ 13.55
Granted	27,000	$ 24.76
Vested	(41,499)	$ 14.80
Cancelled	(10,334)	$ 21.73
Outstanding, December 31, 2008	65,917	$ 16.07

In accordance with the 2006 Plan, RSAs granted in 2008 and 2007 reduced the number of shares available for future grant by a factor of 1.75 in 2008 and 1.6 in 2007 for each share subject to such award, or 47,250 and 153,600 shares, respectively.

Employee Stock Purchase Plan

The 2000 Employee Stock Purchase Plan ("ESPP") was adopted in April 2000 and amended in June 2003. The ESPP permits eligible employees of the Company and its participating subsidiaries to purchase common stock at a discount up to a maximum of 15% of compensation through payroll deductions during defined offering periods. The price at which stock is purchased under the ESPP is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. The number of shares available for future issuance increase annually equal to the lesser of 200,000 shares, 0.75% of the outstanding shares on the date of the annual increase or a lesser amount determined by the Board.

Non-Employee Director Stock Options

Under the 2006 Plan, non-employee directors will automatically be granted NQSOs to purchase 25,000 shares of common stock upon initial election or appointment to the Board, which vest and become exercisable in equal amounts on each of three annual anniversary dates of the grant date as long as the director remains on the Board. On the date of the first Board meeting following each

annual shareholder meeting each non-employee director then in office for longer than six months will automatically be granted NQSOs to purchase 12,500 shares of common stock, which vest and become exercisable on the one-year anniversary from the grant date as long as the director remains on the Board. The Board may also make discretionary grants to purchase common stock to any non-employee director that vest and become exercisable as determined by the Board. On April 27, 2006, the Board granted an option under the 2006 Plan to purchase 10,000 shares of common stock at $9.18 per share to a non-employee director who became a member of the Board in February 2006. Such option vests and becomes exercisable in equal amounts on each of three annual anniversary dates of the grant date as long as the director remains on the Board. The exercise price of non-employee director options will be equal to the fair market value of the common stock on the date of the grant.

Reserved Shares

As of December 31, 2008, the Company has reserved shares of common stock for future issuance as follows (in thousands):

Stock Options:	
Options and awards outstanding for all plans	9,006
Reserved for future grants	1,382
ESPP	274
	10,662

Stock-Based Compensation

Fair Value—The fair value of the Company's stock options granted to employees and shares purchased by employees under the ESPP for the years ended December 31, 2008 and 2007 was estimated using the following assumptions:

	Years Ended December 31,		
	2008	2007	2006
OPTION SHARES:			
Expected Term (in years)	4.46	5.00	5.00
Volatility	0.60	0.56	0.96
Expected Dividends	0.00%	0.00%	0.00%
Risk Free Interest Rates	2.38%	4.49%	4.87%
Estimated Forfeitures	7.74%	10.60%	13.45%
Weighted Average Fair Value	$ 6.44	$ 6.76	$ 6.65
ESPP SHARES:			
Expected Term (in years)	1.25	1.25	1.25
Volatility	0.70	0.47	0.49
Expected Dividends	0.00%	0.00%	0.00%
Risk Free Interest Rates	2.26%	4.95%	5.01%
Estimated Forfeitures	7.74%	10.60%	13.45%
Weighted Average Fair Value	$ 7.60	$ 3.94	$ 3.42

Stock-Based Compensation Cost—Prior to the adoption of SFAS 123(R), the Company recorded stock-based compensation in accordance with APB 25 when the option price was less than the fair market value. As of December 31, 2003, all deferred compensation previously recognized had been amortized to expense. The following table is a summary of the major categories of stock compensation expense recognized in accordance with SFAS 123(R) for the years ended December 31, 2008 and 2007 (in thousands).

	Years Ended December 31,		
	2008	2007	2006
Cost of product sales	$ 1,016	$ 794	$ 584
Research and development	5,407	4,294	2,839
Sales and marketing	3,456	2,221	1,444
General and administrative	4,185	3,811	2,463
Total stock-based compensation cost	$ 14,064	$ 11,120	$ 7,330

The impact on 2008, 2007, and 2006 basic and diluted net loss per share resulting from the adoption of SFAS 123(R) was $0.25, $0.20, and $0.14 respectively.

The above stock-based compensation cost includes $1.7 million, $1.5 million, and $1.1 million related to ESPP for 2008, 2007, and 2006, respectively. In addition, stock-based compensation cost of approximately $1.6 million and $0.5 million was included in inventory as of December 31, 2008 and 2007, respectively.

In December 2007, the Company entered into a separation and consulting agreement with John R. Sluis, the Company's former Senior Vice President and Chief Financial Officer. In compliance with the terms of the agreement, during the twelve months ended December 31, 2008, Mr. Sluis provided consulting services to the Company. During the twelve-month period ending December 31, 2008, unvested options previously granted to Mr. Sluis continued to vest according to the schedules set forth in each such option. At the conclusion of the consulting period on December 31, 2008, as Mr. Sluis completed his duties to the satisfaction of the Company's Chief Executive Officer, per the agreement an additional 24,000 shares became vested and exercisable. As a result of the modification of Mr. Sluis' options, the Company incurred stock-based compensation of $0.1 million in 2008 and $0.8 million in 2007. In addition, also as per the agreement, during 2008 Mr. Sluis receive a sum equivalent to his existing salary on the effective date of his retirement of $0.3 million for his consulting services, which was accrued and recorded as an expense in 2007.

As of December 31, 2008, the total compensation cost related to unvested stock-based grants awarded under the Company's 1997 Plan and 2006 Plan but not yet recognized was approximately $26.5 million, which is net of estimated forfeitures of $6.3 million. This cost will be amortized on a straight line basis over a weighted average period of approximately 2.6 years and will be adjusted for subsequent changes in estimated forfeitures.

As of December 31, 2008, the total compensation cost related to RSAs not yet recognized was approximately $0.7 million, which is net of estimated forfeitures of $0.2 million. This cost will be amortized on a straight line basis over a weighted average period of approximately 2.07 years and will be adjusted for subsequent changes in estimated forfeitures.

At December 31, 2008, the total compensation cost related to options to purchase the Company's common shares under the ESPP but not yet recognized was approximately $0.8 million. The cost will be amortized on a straight-line basis over the two year offering period, as such term is defined in the ESPP.

11. Employee Benefit Plan

The Company adopted a 401(k) plan that allows eligible employees to contribute a percentage of their qualified compensation subject to IRS limits. The Company has the discretion to make matching contributions each year. Contributions made by the Company for the years ended December 31, 2008, 2007 and 2006 were $0.5 million, $0.2 million, and $0, respectively.

12. Income Taxes

Income tax benefit of $0.9 million in 2008 represents current U.S. federal income tax benefit of $0.2 million related to a refundable R&D credit as provided by the Housing and Economic Recovery Act of 2008 ("Act"). The Act, signed into law in July 2008, allows taxpayers to claim refundable alternative minimum tax or R&D credit carryovers if they forego bonus depreciation on certain qualified property and equipment placed in service from the period between April and December 2008. The Company estimated and recognized the credit based on property and equipment placed into service through the year ended December 31, 2008. The income tax benefit in 2008 also represents $0.8 million of income tax benefit mainly related to the amortization of acquired intangibles in Sweden and refundable R&D credit in France, offset by $0.1 million of state income tax expense. Income tax expense of $0.2 million in 2007 represented foreign income taxes related to our French subsidiary. No income taxes were recorded in 2006.

For federal income tax purposes, the Company has open tax years from 1996 through 2008 due to net operating loss carryforwards relating to these years. Substantially all material state, local and foreign income tax matters have been concluded for years through December 31, 2001. For California state income tax purposes, the open years are from 2000 through 2008 due to either research credit carryovers or net operating loss carryforwards.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets (liabilities) are as follows (in thousands):

	December 31,	
	2008	2007
Net operating loss carryforwards	$ 47,110	$ 45,272
Capitalized research and development costs	2,104	1,384
Research and other credit carryforwards	8,360	7,105
Accruals and reserves	—	414
Stock option compensation	9,385	5,031
Other	4,908	3,951
Total deferred tax assets	71,867	63,157
Valuation allowance for deferred tax assets	(71,334)	(59,893)
Total deferred tax liability	(2,633)	(3,264)
Net deferred tax liability	$ (2,100)	$ —

Realizability of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance with the exception of those in France and the UK relating to the amortization of acquired assets and licensed intellectual property of Sangtec and Stretton. The valuation allowance increased by approximately $11.4 million, decreased by $0.1 million and increased by $17.6 million during the years ended December 31, 2008, 2007 and 2006, respectively.

As of December 31, 2008, the Company had net operating loss carryforwards for federal income tax purposes of approximately $164.8 million, which expire in the years 2011 through 2028, and federal research and development tax credits of approximately $4.2 million, which expire in the years 2012 through 2028. As of December 31, 2008, the Company had net operating loss carryforwards for state income tax purposes of approximately $61.3 million, which expire in the years 2010 through 2028, and state research and development tax credits of approximately $5.2 million, which have no expiration date.

Utilization of the Company's net operating loss may be subject to a substantial annual limitation due to ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such annual limitation may result in the expiration of net operating loss before utilization.

Undistributed earnings of the Company's foreign subsidiaries of approximately $1.9 million and $1.4 million at December 31, 2008 and 2007, respectively, are considered to be indefinitely reinvested, and, accordingly, no provisions for federal and state income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both federal income taxes, subject to an adjustment for the foreign income tax credit, and withholding taxes payable to various foreign countries. The following table summarizes the activity related to our unrecognized tax benefits (in thousands):

	2008	2007
Balance at beginning of year	$ 3,675	$ 200
Increase related to current year tax positions	689	673
Increase (decrease) for tax positions of prior years	(34)	2,802
Balance at end of year	$ 4,330	$ 3,675

All of the unrecognized tax benefits would affect our effective tax rate if recognized, before consideration of certain valuation allowances. The Company anticipates that the total unrecognized tax benefits will not significantly change due to the settlement of audits and the expiration of statutes of limitations prior to December 31, 2009.

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SUPPLEMENTARY DATA
QUARTERLY FINANCIAL INFORMATION

	Quarters Ended			
	Mar 31	June 30	Sep 30	Dec 31
	(Unaudited) (In thousands, except per share data)			
2008				
Total revenues	$ 44,833	$ 42,050	$ 44,915	$ 37,829
Costs and operating expenses:				
Cost of product sales	22,986	22,870	23,623	19,561
Collaboration profit sharing	3,733	2,777	2,460	2,119
Research and development	9,898	10,964	11,611	10,837
Sales and marketing	6,941	7,434	7,871	7,511
General and administrative	4,747	5,518	5,517	5,079
Gain from legal settlement	—	—	—	(1,454)
Total costs and operating expenses	48,305	49,563	51,082	43,653
Loss from operations	(3,472)	(7,513)	(6,167)	(5,824)
Other income (expenses), net	1,282	191	(906)	(215)
Net loss, before income tax expense	(2,190)	(7,322)	(7,073)	(6,039)
Income tax benefit (expense)	340	(204)	614	161
Net loss	$ (1,850)	$ (7,526)	$ (6,459)	$ (5,878)
Basic and diluted net loss per share	$ (0.03)	$ (0.13)	$ (0.11)	$ (0.10)
Weighted average shares used in computing basic and diluted net loss per share	56,152	57,054	57,538	57,648
2007				
Total revenues	$ 25,544	$ 27,173	$ 36,329	$ 40,427
Costs and operating expenses:				
Cost of product sales	13,877	13,879	19,966	21,452
Collaboration profit sharing	3,497	2,731	2,729	3,299
Research and development	6,922	7,439	8,371	8,717
Sales and marketing	4,493	5,067	6,411	6,841
General and administrative	3,935	4,038	4,445	5,851
Total costs and operating expenses	32,724	33,154	41,922	46,160
Loss from operations	(7,180)	(5,981)	(5,593)	(5,733)
Other income (expenses), net	1,027	740	852	658
Net loss, before income tax expense	(6,153)	(5,241)	(4,741)	(5,075)
Income tax expense	—	—	—	(213)
Net loss	$ (6,153)	$ (5,241)	$ (4,741)	$ (5,288)
Basic and diluted net loss per share	$ (0.11)	$ (0.10)	$ (0.09)	$ (0.10)
Weighted average shares used in computing basic and diluted net loss per share	55,012	55,149	55,356	55,529

ITEM 9. ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***

None.

ITEM 9A. ***CONTROLS AND PROCEDURES***

Evaluation of Disclosure Controls and Procedures

As of December 31, 2008, we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(a) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended). Based on the evaluation, we concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports filed and submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported to our management including our Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding timely disclosure.

Management's Annual Report on Internal Control over Financial Reporting

The report of management required under this Item 9A is contained in Item 8 of Part II of this Annual Report on Form 10-K under the heading "Management's Report on Internal Control Over Financial Reporting."

Attestation Report of Independent Registered Public Accounting Firm

The attestation report required under this Item 9A is contained in Item 8 of Part II of this Annual Report on Form 10-K under the heading "Report of Independent Registered Public Accounting Firm".

Changes in Internal Control over Financial Reporting

There were no significant changes in our internal control over financial reporting during the fourth quarter of 2008.

ITEM 9B. ***OTHER INFORMATION***

None.

PART III

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

Information in response to this item is incorporated herein by reference to our definitive proxy statement for our 2009 annual meeting of stockholders to be held on April 29, 2009. Information related to our executive officers also appears under the caption "Executive Officers of the Registrant" in Item 1 to this report.

ITEM 11. *EXECUTIVE COMPENSATION*

Information in response to this item is incorporated herein by reference to our definitive proxy statement for our 2009 annual meeting of stockholders to be held on April 29, 2009.

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS*

Information in response to this item is incorporated herein by reference to our definitive proxy statement for our 2009 annual meeting of stockholders to be held on April 29, 2009.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE*

Information in response to this item is incorporated herein by reference to our definitive proxy statement for our 2009 annual meeting of stockholders to be held on April 29, 2009.

ITEM 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

Information in response to this item is incorporated herein by reference to our definitive proxy statement for our 2009 annual meeting of stockholders to be held on April 29, 2009.

PART IV

ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*

The following documents are being filed as part of this report on Form 10-K:

(a) Financial Statements

The following financial statements are filed as part of this report under Item 8 — "Financial Statements and Supplementary Data."

Management's Report on Internal Control Over Financial Reporting

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Supplementary Data: Quarterly Financial Information

(b) Schedule II — Valuation and Qualifying Accounts for the years ended December 31, 2008, 2007 and 2006.

All other schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements and notes thereto in Item 8 above.

(c) Exhibits

The exhibit list in the Index to Exhibits is incorporated herein by reference as the list of exhibits required as part of this report.

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SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Year	Costs and Expenses	Deductions	Balance at End of Year
		(In thousands)		
Allowance for doubtful accounts:				
Year ended December 31, 2006	$ 11	$ 78	$ (2)	$ 87
Year ended December 31, 2007	87	97	(147)	37
Year ended December 31, 2008	37	69	(86)	20

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

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By: /s/ ANDREW D. MILLER
Andrew D. Miller
Senior Vice President and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John L. Bishop and Andrew D. Miller or either of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and re-substitution, for him and in his or her name, place and stead, in any and all capacities to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto the attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that the attorneys-in-fact and agents, or either of them, or their, his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JOHN L. BISHOP John L. Bishop	Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2009
/s/ ANDREW D. MILLER Andrew D. Miller	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 26, 2009
/s/ THOMAS L. GUTSHALL Thomas L. Gutshall	Director and Chairman of the Board	February 26, 2009
/s/ THOMAS D. BROWN Thomas D. Brown	Director	February 26, 2009
/s/ CRISTINA H. KEPNER Cristina H. Kepner	Director	February 26, 2009
/s/ ROBERT EASTON Robert Easton	Director	February 26, 2009
/s/ DEAN O. MORTON Dean O. Morton	Director	February 26, 2009
/s/ MITCHELL D. MROZ Mitchell D. Mroz	Director	February 26, 2009
/s/ DAVID H. PERSING, M.D., PH.D. David H. Persing	Executive Vice President and Chief Medical and Technology Officer and Director	February 26, 2009
/s/ HOLLINGS C. RENTON Hollings C. Renton	Director	February 26, 2009

Exhibit Number	Description of Exhibit	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Articles of Incorporation	S-1	333-34340	3.1	4/7/2000	
3.2	Amended and Restated Bylaws	8-K		3.01	10/24/2008	
3.3	Certificate of Determination specifying the terms of the Series A Junior Participating Preferred Stock of registrant, as filed with the Secretary of State to the State of California on October 2, 2002	8-A		3.02	10/4/2002	
4.1	Reference is made to Exhibits 3.1 and 3.2					
4.2	Specimen Common Stock Certificate	10-Q		4.01	7/31/2002	
4.3	Rights Agreement dated September 26, 2002 between Cepheid and Computershare Trust Company as Rights Agent, which includes as Exhibit A the form of Certificate of Determination of Series A Junior Participating Preferred Stock, as Exhibit B the Summary of Stock Purchase Rights and as Exhibit C the Form of Rights Certificate	8-A		3.02	10/4/2002	
10.1*	1997 Stock Option Plan, as amended	S-8	333-106181	4.2	6/17/2003	
10.2*	2000 Employee Stock Purchase Plan, as amended	S-8	333-106181	4.1	6/17/2003	
10.3*	2006 Equity Incentive Plan and related forms of agreement for stock options, restricted stock, stock bonuses, stock appreciation rights, restricted stock units and other awards	8-K		99.01	4/25/2008	
10.4*	Form of Indemnification Agreement between Cepheid and its officers and directors	S-1	333-34340	10.6	4/7/2000	
10.5†	License Agreement, dated January 16, 1996, between Cepheid and The Regents of the University of California, Lawrence Livermore National Laboratory	S-1	333-34340	10.9	6/7/2000	
10.6†	Thermal Cycler Supplier Agreement, dated April 15, 2000, between Cepheid and PE Biosystems, a division of PE Corporation	S-1	333-34340	10.16	5/18/2000	
10.7†	Distribution Agreement dated July 11, 2000 between Cepheid and Takara Shuzo Co., Ltd.	10-Q		10.1	11/14/2000	
10.8	Lease Agreement dated October 18, 2001, between Cepheid and Aetna Life Insurance Company	10-K		10.17	3/22/2002	
10.9†	Letter Agreement between Takara Biomedical Co, Ltd. and Cepheid dated January 25, 2002	10-Q		10.2	5/15/2002	
10.10†	Modification of Distribution Agreement dated July 11, 2000 between Cepheid and Takara Biomedical Co., Ltd. dated February 11, 2002	10-Q		10.4	5/15/2002	
10.11†	Collaboration Agreement between Applied Biosystems and Cepheid dated October 11, 2002	10-K		10.28	3/25/2003	
10.12†	Letter Agreement between Aridia Corp. and Cepheid and Infectio Diagnostic Inc. dated November 4, 2003	10-K		10.23	3/12/2004	
10.13†	License Agreement between Cepheid and Infectio Diagnostic Inc. dated November 4, 2003	10-K		10.24	3/12/2004	
10.14†	Distribution Agreement between Cepheid and Infectio Diagnostic Inc. dated November 4, 2003	10-K		10.25	3/12/2004	

Exhibit Number	Description of Exhibit	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.15†	Distribution Agreement between Cepheid and Infectio Diagnostic Inc. dated November 4, 2003	10-K		10.26	3/12/2004	
10.16†	License, Development and Supply Agreement between bioMerieux, Inc. and Cepheid dated December 31, 2003	10-K		10.27	3/12/2004	
10.17†	IVD Products Patent License Agreement between Cepheid and F. Hoffmann-La Roche Ltd, effective July 1, 2004	10-Q		10.28	8/9/2004	
10.18†	Real-Time Instrument Patent License Agreement between Applera Corporation and Cepheid, dated April 5, 2004	10-Q		10.29	8/9/2004	
10.19*	Offer letter to Mr. Humberto Reyes from Cepheid dated November 4, 2004	10-K		10.35	2/28/2005	
10.20	Facility lease agreement between Cepheid and Teachers Insurance & Annuity Association of America, Inc. dated May 13, 2005	8-K		99.01	5/18/2005	
10.21*	Employment offer letter between Cepheid and David H. Persing dated July 21, 2005	8-K		99.01	7/26/2005	
10.22†	First amendment to the Distribution Agreement between Cepheid and Infectio Diagnostic ("I.D.I.") Inc. of November 4, 2003 by and between Cepheid and GeneOhm Sciences, Inc. dated April 6, 2005	10-Q		10.2	8/4/2005	
10.23*	Form of Stock Option Grant Agreement with certain executive officers of Cepheid approved by Cepheid's Compensation Committee of the Board of Directors on April 27, 2005	10-Q		10.3	8/4/2005	
10.24†	Advanced Authorization Letter Agreement between Cepheid and Northrop Grumman Security Systems dated July 20, 2005	10-Q		10.1	11/3/2005	
10.25†	First amendment to the Distribution Agreement between Cepheid and Infectio Diagnostic ("I.D.I.") Inc. of November 4, 2003 by and between Cepheid and GeneOhm Sciences Canada, Inc. dated September 30, 2005	10-Q		10.4	11/3/2005	
10.26†	License Agreement between Cepheid and Abaxis, Inc. dated September 30, 2005	10-Q		10.5	11/3/2005	
10.27†	License Agreement between Cepheid and DxS Limited dated November 28, 2005	10-K		10.45	2/22/2006	
10.28*	Employment Agreement dated January 24, 2007, by and between Cepheid and John L. Bishop	8-K		10.1	1/29/2007	
10.29*	Share Purchase Agreement dated February 14, 2007, by and between Cepheid, Altana Technology Projects GmbH, and Altana Pharma AG	8-K		2.1	2/20/2007	
10.30	Settlement and Cross-License Agreement between Cepheid and Idaho Technology, Inc. dated January 2, 2007	10-Q		10.1	5/10/2007	
10.31	Sublicense agreement between Cepheid and bioMerieux S.A. dated January 16, 2007	10-Q		10.2	5/10/2007	
10.32††	Master Purchase Order between Northrop Grumman Security Systems and Cepheid dated August 15, 2007	10-Q		10.1	11/5/2007	
10.33*	Separation Agreement dated December 31, 2007, by and between Cepheid and John R. Sluis	10-K		10.39	2/29/2008	

Exhibit Number	Description of Exhibit	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.34*	Employment Agreement dated February 6, 2008, by and between Cepheid and Andrew D. Miller	8-K		10.01	2/11/2008	
10.35	Amended and Restated Form of Change of Control Retention and Severance Agreement between Cepheid and each of its executive officers	8-K		99.01	2/21/2008	
10.36	Office Lease dated February 28, 2008, between BRCP Caribbean Portfolio, LLC, and Cepheid	10-Q		10.1	5/7/2008	
10.37	Series C-2 Auction Rate Securities Rights (Incorporated by reference to Exhibit 4.6 to the Registration Statement on Form F-3 (File No. 333-153882) by UBS AG with the Securities and Exchange Commission on October 7, 2008)	F-3	333-153882	4.6	10/7/2008	
10.38	Credit Line Agreement dated December 5, 2008, by and between Cepheid and UBS					X
21.1	List of Subsidiaries					X
23.1	Consent of Independent Registered Public Accounting Firm					X
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 Principal 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 Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X

* Management contract or compensatory plan or arrangement.

† Confidential treatment has been granted with respect to portions of the exhibit. A complete copy of the agreement, including the redacted terms, has been separately filed with the Securities and Exchange Commission.

UBS

UBS Bank USA

Variable Credit Line Account Number: *(if applicable)*

Fixed Credit Line Account Number: *(if applicable)*

SS# / TIN

Internal Use Only

Credit Line Agreement

Borrower Agreement

BY SIGNING BELOW. THE BORROWER UNDERSTANDS, ACKNOWLEDGES AND AGREES THAT:

A The Borrower has received and read a copy of this Borrower Agreement, the attached Credit Line Account Application and Agreement (including the Credit Line Agreement following this Borrower Agreement) and the Loan Disclosure Statement explaining the risk factors that the Borrower should consider before obtaining a loan secured by the Borrower's securities account. The Borrower agrees to be bound by the terms and conditions contained in the Credit Line Account Application and Agreement (including the Credit Line Agreement following this Borrower Agreement) (which terms and conditions are incorporated by reference). Capitalized terms used in this Borrower Agreement have the meanings set forth in the Credit Line Agreement.

B THE BORROWER UNDERSTANDS AND AGREES THAT UBS BANK USA MAY DEMAND FULL OR PARTIAL PAYMENT OF THE CREDIT LINE OBLIGATIONS. AT ITS SOLE OPTION AND WITHOUT CAUSE, AT ANY TIME, AND THAT NEITHER FIXED RATE ADVANCES NOR VARIABLE RATE ADVANCES ARE EXTENDED FOR ANY SPECIFIC TERM OR DURATION. THE BORROWER UNDERSTANDS AND AGREES THAT ALL ADVANCES ARE SUBJECT TO COLLATERAL MAINTENANCE REQUIREMENTS. THE BORROWER UNDERSTANDS THAT UBS BANK USA MAY, AT ANY TIME, IN ITS DISCRETION, TERMINATE AND CANCEL THE CREDIT LINE REGARDLESS OF WHETHER OR NOT AN EVENT HAS OCCURRED.

C UNLESS DISCLOSED IN WRITING TO UBS BANK USA AT THE TIME OF THIS AGREEMENT, AND APPROVED BY UBS BANK USA, THE BORROWER AGREES NOT TO USE THE PROCEEDS OF ANY ADVANCE EITHER TO PURCHASE, CARRY OR TRADE IN SECURITIES OR TO REPAY ANY DEBT (I) USED TO PURCHASE, CARRY OR TRADE IN SECURITIES OR (II) TO ANY AFFILIATE OF UBS BANK USA. THE BORROWER WILL BE DEEMED TO REPEAT THIS AGREEMENT EACH TIME THE BORROWER REQUESTS AN ADVANCE.

D THE BORROWER UNDERSTANDS THAT BORROWING USING SECURITIES AS COLLATERAL ENTAILS RISKS. SHOULD THE VALUE OF THE SECURITIES IN THE COLLATERAL ACCOUNT DECLINE BELOW THE REQUIRED COLLATERAL MAINTENANCE REQUIREMENTS, UBS BANK USA MAY REQUIRE THAT THE BORROWER POST ADDITIONAL COLLATERAL, REPAY PART OR ALL OF THE BORROWER'S LOAN AND/OR SELL THE BORROWER'S SECURITIES. ANY REQUIRED LIQUIDATIONS MAY INTERRUPT THE BORROWER'S LONG-TERM INVESTMENT STRATEGIES AND MAY RESULT IN ADVERSE TAX CONSEQUENCES.

E Neither UBS Bank USA nor UBS financial Services Inc. provides legal or tax advice and nothing herein shall be construed as providing legal or tax advice.

F Upon execution of this Credit Line Account Application and Agreement, the Borrower declares that all of the information requested in the Application and supplied by the Borrower is true and accurate and further agrees to promptly notify UBS Bank USA in writing of any material changes to any or all of the information contained in the Application including information relating to the Borrower's financial situation.

G Subject to any applicable financial privacy laws and regulations, data regarding the Borrower and the Borrower's securities accounts may be shared with UBS Bank USA affiliates. Subject to any applicable financial privacy laws and regulations, the Borrower requests that UBS Bank USA share such personal financial data with non-affiliates of UBS Bank USA as is necessary or advisable to effect, administer or enforce, or to service, process or maintain, all transactions and accounts contemplated by this Agreement.

H The Borrower authorizes UBS Bank USA and UBS Financial Services Inc. to obtain a credit report or other credit references concerning the Borrower (including making verbal or written inquiries concerning credit history) or to otherwise verify or update credit information given to UBS Bank USA at any time. The Borrower authorizes the release of this credit report or other credit information to UBS Bank USA affiliates as it deems necessary or advisable to effect, administer or enforce, or to service, process or maintain all transactions and accounts contemplated by this Agreement, and for the purpose of offering additional products, from time to time, to the Borrower. The Borrower authorizes UBS Bank USA to exchange Borrower information with any party it reasonably believes is conducting a legitimate credit inquiry/ in accordance with the Fair Credit Reporting Act. UBS Bank USA may also share credit or other transactional experience with the Borrower's designated UBS Financial Services Inc. Financial Advisor or other parties designated by the Borrower.

I UBS Bank USA is subject to examination by various federal, state and self-regulatory organizations and the books and records maintained by UBS Bank USA are subject to inspection and subpoena by these regulators and by federal, state, and local law enforcement officials. The Borrower also acknowledges that. such regulators and officials may, pursuant to treaty or other arrangements, in turn disclose such information to the officials or regulators of other countries, and that U.S. courts maybe required to compel UBS Bank USA to disclose such information to the officials or regulators of other countries. The Borrower agrees that UBS Bank USA may disclose to such regulators and officials information about the Borrower and transactions in the credit line account or other accounts at UBS Bank USA without notice to the Borrower. In addition, UBS Bank USA may in the context of a private dispute be required by subpoena or other judicial process to disclose information or produce documentation related to the Borrower, the credit line account

or other accounts at UBS Bank USA. The Borrower acknowledges and agrees that UBS Bank USA reserves the right, in its sole discretion, to respond to subpoenas and judicial process as it deems appropriate.

J To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. When the Borrower opens an account with UBS Bank USA, UBS Bank USA will ask for the Borrower's name, address, and other information that will allow UBS Bank USA to identify the Borrower. UBS Bank USA may also ask to see other identifying documents. UBS Financial Services Inc. and UBS Bank USA are firmly committed to compliance with all applicable laws, rules and regulations, including those related to combating money laundering. The Borrower understands and agrees that the Borrower must take all necessary steps to comply with the anti-money laundering laws, rules and regulations of the Borrower's country of origin, country of residence and the situs of the Borrower's transaction,

K UBS Bank USA and its affiliates will act as creditors and, accordingly, their interests may be inconsistent with, and potentially adverse to, the Borrower's interests. As a lender and consistent with normal lending practice. UBS Bank USA may take any steps necessary to perfect its interest in the Credit Line, issue a call for additional collateral or force the sale of the Borrower's securities if the Borrower's actions or inactions call the Borrower's creditworthiness into question. Neither UBS Bank USA nor UBS Financial Services Inc. will act as Client's investment advisor with respect to any liquidation. In fact UBS Bank USA will act: as a creditor and UBS Financial Services Inc. will act as a securities intermediary.

L The Borrower understands that, if the Collateral Account is a managed account with UBS Financial Services Inc., (i) in addition to any fees payable to UBS Financial Services Inc. in connection with the Borrower's managed account, interest will be payable to the Bank on an amount advanced to the Borrower in connection with the Credit Line Account, and (ii) the performance of the managed account might not exceed the managed account fees and the interest expanse payable to the Bank in which case the Borrower's overall rate of return will be less than the costs associated with the managed account.

M UBS Bank USA may provide copies of all credit line account statements to UBS Financial Services Inc. and to any Guarantor. The Borrower acknowledges and agrees that UBS Bank USA may share any and all information regarding the Borrower and the Borrower's accounts at UBS Bank USA with UBS Financial Services Inc. UBS Financial Services Inc. may provide copies of all statements and confirmations concerning each Collateral Account to UBS Bank USA at such times and in such manner as UBS Bank USA may request and may share with UBS Bank USA any and all information regarding the Borrower and the Borrower's accounts with UBS Financial Services Inc.

IN WITNESS WHEREOF, the undersigned ("Borrower") has signed this Agreement, or has caused this Agreement to be signed in its name by its duly authorized representatives, as of the date indicated below.

DATE: December 5, 2008

Name of Borrowed: Cepheid

By: /s/ John L. Bishop
(Signature of Authorized Signatory of Borrower)* John L. Bishop

Title: Chief Executive Officer/CEO
(Title of Authorized Signatory of Borrower)

By: /s/ Andrew D. Miller
(Signature of Authorized Signatory of Borrower)* Andrew D. Miller

Title: Chief Financial Officer
(Title of Authorized Signatory of Borrower)

The authorized signatory of the Borrower must be one of the Authorized Persons designated on the applicable UBS Bank USA supplemental form executed by the Borrower (e.g., the Supplemental Corporate Resolution Form (HP Form)).

UBS

UBS Bank USA

Variable Credit Line Account Number: *(if applicable)*

Fixed Credit Line Account Number: *(if applicable)*

SS# / TIN

Internal Use Only

Credit Line Agreement

Credit Line Agreement - Demand Facility

THIS CREDIT LINE AGREEMENT (as it may be amended, supplemented or otherwise modified from time to time, this "Agreement") is made by and between the party or parties signing as the Borrower on the Application to which this Agreement is attached (together and individually, the "Borrower") and UBS Bank USA (the "Bank") and, together with the Application, establishes the terms and conditions that will govern the uncommitted demand loan facility made available to the Borrower by the Bank. This Agreement becomes effective upon the earlier of (i) notice from the Bank (which notice may be oral or written) to the Borrower that the Credit Line has been approved and (ii) the Bank making an Advance to the Borrower.

1) Definitions

- "Advance" means any Fixed Rate Advance or Variable Rate Advance made by the Bank pursuant to this Agreement.
- "Advance Advice" means a written or electronic notice by the Bank, sent to the Borrower, the Borrower's financial advisor at UBS Financial Services Inc. or any other party designated by the Borrower to receive the notice, confirming that a requested Advance will be a Fixed Rate Advance and specifying the amount, fixed rate of interest and Interest Period for the Fixed Rate Advance.
- "Application" means the Credit Line Account Application and Agreement that the Borrower has completed and submitted to the Bank and into which this Agreement is incorporated by reference.
- "Approved Amount" means the maximum principal amount of Advances that is permitted to be outstanding under the Credit Line at any time, as specified in writing by the Bank.
- " Breakage Costs" and "Breakage Fee" have the meanings specified in Section 6(b).
- "Business Day" means a day on which both of the Bank and UBS Financial Services Inc. are open for business. For notices and determinations of LIBOR, Business Day must also be a day for trading by and between banks in U.S. dollar deposits in the London interbank market.
- "Collateral" has the meaning specified in Section 8(a).
- "Collateral Account" means, individually and collectively, each account of the Borrower or Pledgor at UBS Financial Services Inc. or UBS International Inc., as applicable, that is either identified as a Collateral Account on the Application to which this Agreement is attached or subsequently identified as a Collateral Account by the Borrower or Pledgor, either directly or indirectly through the Borrower's or Pledgor's UBS Financial Services Inc. financial advisor, together with all successors to those identified accounts, irrespective of whether the successor account bears a different name or account number.
- "Credit Line" has the meaning specified in Section 2(a).
- "Credit Line Account" means each Fixed Rate Account and each Variable Rate Account of the Borrower that is established by the Bank in connection with this Agreement and either identified on the Application or subsequently identified as a Credit Line Account by the Bank by notice to the Borrower, together with alt successors to those identified accounts, irrespective of whether any successor account bears a different name or account number.
- "Credit Line Obligations" means, at any time of determination, the aggregate of the outstanding principal amounts of all Advances, together with all accrued but unpaid interest on the outstanding principal amounts, any and all fees or other charges payable in connection with the Advances and any costs of collection (including reasonable attorneys' fees) and other amounts payable by the Borrower under this Agreement, and any and all other present or future obligations of the Borrower and the other respective Loan Parties under this Agreement and the related agreements, whether absolute or contingent, whether or not due or mature.
- "Event" means any of the events listed in Section 10.
- "Fixed Rate Advance" means any advance made under the Credit Line that accrues interest at a fixed rate.
- "Guarantor" means any party who guaranties the payment and performance of the Credit Line Obligations.

- "Guaranty Agreement" means an agreement pursuant to which a Guarantor agrees to guaranty payment of the Credit Line Obligations.

- "Interest Period" means, for a Fixed Rate Advance, the number of days, weeks or months requested by the Borrower and confirmed in the Advance Advice relating to the Fixed Rate Advance, commencing on the date of (i) the extension of the Fixed Rate Advance or (ii) any renewal of the Fixed Rate Advance and, in each case, ending on the last day of the period, if the last day is not a Business Day, then the Interest Period will end on the immediately succeeding Business Day. If the last Business Pay would fall in the next calendar month, the Interest Period will end on the immediately preceding Business Day. Each monthly or longer Interest Period that commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) will end on the last Business Day of the appropriate calendar month.

- "Joint Borrower" has the meaning specified in Section 7(a).

- "LIBOR" means, as of any date of determination for Variable Rate Advances, the prevailing London Interbank Offered Rate for deposits in U.S. dollars having a maturity of 30 days as published in The Wall Street Journal "Money Rates" Table on the date of the Advance.

  If the rate ceases to be regularly published by The Wall Street Journal LIBOR will be determined by the Bank in its sole and absolute discretion. For any day that is not a Business Day, LIBOR will be the applicable LIBOR in effect immediately prior to that day.

- "Loan Party" means each Borrower, Guarantor and Pledgor, each in their respective capacities under this Agreement or any related agreement.

- "Person" means any natural person, company, corporation, firm, partnership, joint venture, limited liability company or limited liability partnership, association, organization or any other legal entity.

- "Pledgor" means each Person who pledges to the Bank any Collateral to secure the Credit Line Obligations (or to secure the obligations of any Guarantor with respect to the guaranty of the Credit Line Obligations). Pledgors will include (i) each Borrower who pledges Collateral to secure the Credit Line Obligations, (ii) each Guarantor who has pledged collateral to secure the Credit Line Obligations or its obligations under a Guaranty Agreement, (iii) any spouse of a Borrower who executes a spouse's pledge and consent agreement with respect to a jointly held collateral account. (iv) any other joint account holder who executes a joint account holder pledge and consent agreement with respect to a jointly held collateral account, and (v) any other Person who executes a pledge agreement with respect to the Credit Line.

- "Premier Credit Line" means any Credit line with an Approved Amount equal to or greater than $100,000.
- "Prime Credit Line" means any Credit Line with an Approved Amount less than $100,000.
- "Prime Rate" means the floating "Prime Rate" as published in The Wall Street Journal "Money Rates" Table from time to time. The Prime Rate will change as and when the Prime Rate as published in The Wall Street Journal changes, In the event that The Wall Street Journal does not publish a Prime Rate, the Prime Rate will be the rate as determined by the Bank in its sole and absolute discretion.
- "Securities intermediary" has the meaning specified in Section 9
- "UBS Bank USA Fixed Funding Rate" means, as of any date of determination for Fixed Rate Advances, an internally computed rate established from time-to-time by the Bank, in its sole discretion, based upon the LIBOR swap curve for a corresponding period as well as the Bank's assessment of other lending rates charged in the financial markets.
- "UBS Financial Services Inc." means UBS Financial Services Inc. and its successors.
- "UBS-I" means UBS International Inc. and its successors.
- "Variable Rate Advance" means any advance made under the Credit Line that accrues interest at a variable rate."

2) Establishment of Credit line; Termination

a) Upon the effectiveness of this Agreement, the Bank establishes an **UNCOMMITTED, DEMAND** revolving line of credit (the "Credit Line") in an amount up to the Approved Amount. The Bank may, from time to time upon request of the Borrower, without obligation and in its sole and absolute discretion, authorize and make one or more Advances to the Borrower. The Borrower acknowledges that the Bank has no obligation to make any Advances to the Borrower. The Bank may carry each Variable Rate Advance in a Variable Rate Account and may carry each Fixed Rate Advance in a Fixed Rate Account, but all Advances will constitute extensions of credit pursuant to a single Credit Line. The Approved Amount will be determined, and may be adjusted from time to time, by the Bank in its sole and absolute discretion.

b) **THE BORROWER AND EACH OTHER LOAN PARTY UNDERSTAND AND AGREE THAT THE BANK MAY DEMAND FULL OR PARTIAL PAYMENT OF THE CREDIT LINE OBLIGATIONS, AT ITS SOLE AND ABSOLUTE DISCRETION AND WITHOUT CAUSE, AT ANY TIME, AND THAT NEITHER FIXED RATE ADVANCES NOR VARIABLE RATE ADVANCES ARE EXTENDED FOR ANY SPECIFIC TERM OR DURATION.**

c) **UNLESS DISCLOSED IN WRITING TO THE BANK AT THE TIME OF THE APPLICATION, AND APPROVED BY THE BANK, THE BORROWER AGREES NOT TO USE THE PROCEEDS OF ANY ADVANCE EITHER TO PURCHASE, CARRY OR TRADE IN SECURITIES OR TO REPAY ANY DEBT (I) USED TO PURCHASE, CARRY OR TRADE IN SECURITIES OR (II) TO ANY AFFILIATE OF THE BANK. THE BORROWER WILL BE DEEMED TO REPEAT THE AGREEMENT IN THIS SECTION 2(C) EACH TIME IT REQUESTS AN ADVANCE.**

d) Prior to the first Advance under the Credit Line, the Borrower must sign and deliver to the Bank a Federal Reserve Form U-1 and all other documentation as the Bank may require. The Borrower acknowledges that neither the Bank nor any of its affiliates has advised the Borrower in any manner regarding the purposes for which the Credit Line will be used.

e) The Borrower consents and agrees that, in connection with establishing the Credit Line Account, approving any Advances to the Borrower or for any other purpose associated with the Credit Line, the Bank may obtain a consumer or other credit report from a credit reporting agency relating to the Borrower's credit history. Upon request by the Borrower, the Bank will inform the Borrower: (i) whether or not a consumer or other credit report was requested; and (ii) if so, the name and address of the consumer or other credit reporting agency that furnished the report.

f) The Borrower understands that the Bank will, directly or indirectly, pay a portion of the interest that it receives to the Borrower's financial advisor at UBS Financial Services Inc. or one of its affiliates. To the extent permitted by applicable law, the Bank may also charge the Borrower fees for establishing and servicing the Credit Line Account,

g) following each month in which there is activity in the Borrower's Credit Line Account in amounts greater than $1, the Borrower will receive an account statement showing the new balance, the amount of any new Advances, year to date interest charges, payments and other charges and credits that have been registered or posted to the Credit Line Account.

h) Each of the loan Parties understands and agrees that the Bank may, at any time, in its sole and absolute discretion, terminate and cancel the Credit Line regardless of whether or not an Event has occurred. In the event the Bank terminates and cancels the Credit Line the Credit Line Obligations shall be immediately due and payable in full. If the Credit Line Obligations are not paid in full, the Bank shall have the right, at its option, to exercise any or all of its remedies described in Section 10 of this Agreement.

3) Terms of Advances

a) Advances made under this Agreement will be available to the Borrower in the form, and pursuant to procedures, as are established from time to time by the Bank in its sole and absolute discretion. The Borrower and each Loan Party agree to promptly provide all documents, financial or other information in connection with any Advance as the Bank may request. Advances will be made by wire transfer of funds to an account as specified in writing by the Borrower or by any other method agreed upon by the Bank and the Borrower. The Borrower acknowledges and agrees that the Bank will not make any Advance to the Borrower unless the collateral maintenance requirements that are established by the Bank in its sole and absolute discretion have been satisfied.

b) Each Advance made under a Premier Credit Line will be a Variable Rate Advance unless otherwise designated as a Fixed Rate Advance in an Advance Advice sent by the Bank to the Borrower. The Bank will not designate any Advance as a Fixed Rate Advance unless it has been requested to do so by the Borrower (acting directly or indirectly through the Borrower's UBS Financial Services Inc. financial advisor or other agent designated by the Borrower and acceptable to the Bank), Each Advance Advice will be conclusive and binding upon the Borrower, absent manifest error, unless the Borrower otherwise notifies the Bank in writing no later than the close of business, New York time, on the third Business Day after the Advance Advice is received by the Borrower.

c) Each Advance made under a Prime Credit Line will be a Variable Advance.

d) Unless otherwise agreed by the Bank: (i) all Fixed Rate Advances must be in an amount of at least $100,000; and (ii) all Variable Rate Advances taken by wire transfer must be in an amount of at least $2,500. If the Borrower is a natural person, the initial Variable Rate Advance under the Credit Line must be in an amount equal to at least $25,001 (the "Initial Advance Requirement"). If the Initial Advance requested by the Borrower is made in the form of a check drawn on the Credit Line that does not satisfy the Initial Advance Requirement, then, in addition to and not in limitation of the Bank's rights, remedies, powers or privileges under this Agreement or applicable law, the Bank may, in its sole and absolute discretion:

(i) pay the check drawn by the Borrower if, prior to paying that check, the Bank makes another Advance to the Borrower, which Advance shall be in an amount not less than $25,001; or

(ii) pay the check drawn by the Borrower; or

(iii) decline to pay (bounce) the check.

If the Bank elects option (ii), no interest shall accrue on the amount of the Advance made by paying the check, and the amount of that Advance shall be due and payable to the Bank immediately (with or without demand by the Bank).

4) Interest

a) Each Fixed Rate Advance will bear interest at a fixed rate and for the Interest Period each as specified in the related Advance Advice. The rate of interest payable on each Fixed Rate Advance will be determined by adding a percentage rate to the UBS Bank USA Fixed Funding Rate, as of the date that the fixed rate is determined.

b) Each Variable Rate Advance under a Premier Credit Line will bear interest at a variable rate equal to LIBOR, adjusted daily, plus the percentage rate that (unless otherwise specified by the Bank in writing) is shown on Schedule I below for the Approved Amount of the Credit Line. For Premier Credit Lines, the rate of interest payable on Variable Rate Advances is subject to change without notice in accordance with fluctuations in LIBOR and in the Approved Amount. On each day that LIBOR changes or the Approved Amount crosses one of the thresholds that is indicated on Schedule I (or that is otherwise specified by the Bank in writing), the interest rate on all Variable Rate Advances will change accordingly.

c) Each Variable Rate Advance under a Prime Credit Line will bear interest at a variable rate equal to the Prime Rate, adjusted daily, plus the percentage rate that (unless otherwise specified by the Bank in writing) is shown on the attached Schedule II and that corresponds to the aggregate principal amount outstanding under the Prime Credit Line on that day. For Prime Credit Lines, the rate of interest payable on Variable Rate Advances is subject to change without notice in accordance with fluctuations in the Prime Rate and in the aggregate amount outstanding under the Prime Credit Line. On each date that the Prime Rate changes or the aggregate principal amount outstanding under the Prime Credit Line crosses one of the thresholds that is indicated on Schedule II (or that is otherwise specified by the Bank in writing), the interest rate on all Variable Rate Advances will change accordingly.

5) Payments

a) **Each Fixed Rate Advance will be due and payable in full ON DEMAND or, if not earlier demanded by the Bank, on the last day of the applicable Interest Period.** Any Fixed Rate Advance as to which the Bank has not made a demand for payment and that is not paid in full or renewed, which renewal is in the sole and absolute discretion of the Bank, (pursuant to procedures as may be established by the Bank) as another Fixed Rate Advance on or before the last day of its Interest Period, will be automatically renewed on that date as a U.S. dollar denominated, Variable Rate Advance in an amount (based, in the case of any conversion of a non-US. dollar denominated Fixed Rate Advance, upon the applicable, spot currency exchange rate as of the maturity date, as determined by the Bank) equal to the unpaid principal balance of the Fixed Rate Advance plus any accrued but unpaid interest on the Fixed Rate Advance, which Variable Rate Advance will then accrue additional interest at a variable rate as provided in this Agreement.

b) **Each Variable Rate Advance will be due and payable ON DEMAND.**

c) The Borrower promises to pay the outstanding principal amount of each Advance, together with all accrued but unpaid interest on each Advance, any and all fees or other charges payable in connection with each Advance, on the date the principal amount becomes due (whether by reason of

demand, the occurrence of a stated maturity date, by reason of acceleration or otherwise). The Borrower further promises to pay interest in respect of the unpaid principal balance of each Advance from the date the Advance is made until it is paid in full. All interest will be computed on the basis of the number of days elapsed and a 360-day year. Interest on each Advance will be payable in arrears as follows:

(i) for Fixed Rate Advances - on the last day of the Interest Period (or if the Interest Period is longer than three months, on the last day of each three month period following the date of the Advance) and on each date that all or any portion of the principal amount of the Fixed Rate Advance becomes due or is paid; and

(ii) for Variable Rate Advances - on the twenty-second day of each month other than December, and on the thirty-first day of December, and on each date that all or any portion of the principal amount of the Variable Rate Advance becomes due or is paid.

To the extent permitted by law, and without limiting any of the Bank's other rights and remedies under the Agreement, interest charges on any Advance that are not paid when due will be treated as principal and will accrue interest at a variable rate from the date the payment of interest was due until it is repaid in full.

d) All payments of principal, interest or other amounts payable under this Agreement will be made in immediately available funds and in the same currency in which the Advance was made, which unless otherwise agreed by the Bank, will be U.S. dollars. UBS Financial Services Inc. or UBS International Inc., as applicable, may act as collecting and servicing agent for the Bank for the Advances. All payments will be made by wire transfer of funds to an account specified by the Bank or by another method agreed upon by the Bank and the Borrower. Upon receipt of all payments, the Bank will credit the same to the Credit Line Account. The Bank shall apply the proceeds of any payments in the following order; first to any Breakage Costs, Breakage Fee, other fees, costs of collection and expenses, second to the outstanding principal amount of the related Advance and third to accrued interest.

e) All payments must be made to the Bank free and clear of any and all present and future taxes (including withholding taxes), levies, imposts, duties, deductions, fees, liabilities and similar charges other than those imposed on the overall net income of the Bank. If so requested by the Bank, the Borrower will deliver to the Bank the original or a certified copy of each receipt evidencing payment of any taxes or, if no taxes are payable in respect of any payment

under this Agreement, a certificate from each appropriate taxing authority, or an opinion of counsel in form and substance and from counsel acceptable to the Bank in its sole and absolute discretion, in either case stating that the payment is exempt from or not subject to taxes. If any taxes or other charges are required to be withheld or deducted from any amount payable by the Borrower under this Agreement, the amount payable will be increased to the amount which, after deduction from the increased amount of all taxes and other charges required to be withheld or deducted from the amount payable, will yield to the Bank the amount stated to be payable under this Agreement. If any of the taxes or charges are paid by the Bank, the Borrower will reimburse the Bank on demand for the payments, together with all interest and penalties that may be imposed by any governmental agency. None of the Bank, UBS Financial Services Inc., UBS-I or their respective employees has provided or will provide legal advice to the Borrower or any Loan Party regarding compliance with (or the implications of the Credit Line and the related guaranties and pledges under) the laws (including tax laws) of the jurisdiction of the Borrower or any Loan Party or any other jurisdiction. The Borrower and each Loan Party are and shall be solely responsible for, and the Bank shall have no responsibility for, the compliance by the Loan Parties with any and all reporting and other requirements arising under any applicable laws.

f) In no event will the total interest and fees, if any, charged under this Agreement exceed the maximum interest rate or total fees permitted bylaw. In the event any excess interest or fees are collected, the same will be refunded or credited to the Borrower. If the amount of interest payable by the Borrower for any period is reduced pursuant to this Section 5(f), the amount of interest payable for each succeeding period will be increased to the maximum rate permitted by law until the amount of the reduction has been received by the Bank.

6) Prepayments; Breakage Charges

a) The Borrower may repay any Variable Rate Advance at any time, in whole or in part, without penalty.

b) The Borrower may repay any Fixed Rate Advance, in whole or in part. The Borrower agrees to reimburse the Bank, immediately upon demand, for any loss or cost ("Breakage Costs") that the Bank notifies the Borrower has been incurred by the Bank as a result of (i) any payment of the principal of a Fixed Rate Advance before the expiration of the Interest Period for the Fixed Rate Advance (whether voluntarily, as a result of acceleration, demand or otherwise), or (ii) the Customer's failure to take any Fixed Rate Advance on the date agreed upon, including any loss or cost (including loss of profit or margin) connected with the Bank's re-employment of the amount so prepaid or of those funds acquired by the Bank to fund the Advance not taken on the agreed upon date.

Breakage Costs will be calculated by determining the differential between the stated rate of interest (as determined in accordance with Section 4(a) of the Agreement) for the Fixed Rate Advance and prevailing LIBOR and multiplying the differential by the sum of the outstanding principal amount of the Fixed Rate Advance (or the principal amount of Fixed Rate Advance not taken by the Borrower) multiplied by the actual number of days remaining in the Interest Period for the Fixed Rate Advance (based upon a 360-day year). The Borrower also agrees to promptly pay to the Bank an administrative fee ("Breakage Fee") in connection with any permitted or required prepayment. The Breakage Fee will be calculated by multiplying the outstanding principal amount of the Fixed Rate Advance (or the principal amount of Fixed Rate Advance not taken by the Borrower) by two basis points (0.02%) (with a minimum Breakage Fee of $100.00). Any written notice from the Bank as to the amount of the loss or cost will be conclusive absent manifest error.

7) Joint Credit Line Account Agreement; Suspension and Cancellation

a) If more than one Person is signing this Agreement as the "Borrower", each party (a "Joint Borrower") will be jointly and severally liable for the Credit Line Obligations, regardless of any change in business relations, divorce, legal separation, or other legal proceedings or in any agreement that may affect liabilities between the parties. Except as provided below for the reinstatement of a suspended or cancelled Credit Line, and unless otherwise agreed by the Bank in writing, the Bank may rely on, and each joint Borrower will be responsible for, requests for Advances, directions, instructions and other information provided to the Bank by any joint Borrower.

b) Any Joint Borrower may request the Bank to suspend or cancel the Credit Line by sending the Bank a written notice of the request addressed to the Bank at the address shown on the Borrower's periodic Credit Line Account statements. Any notice will become effective three Business Days after the date that the Bank receives it, and each Joint Borrower will continue to be responsible for paying: (i) the Credit Line Obligations as of the effective date of the notice, and (ii) all Advances that any Joint Borrower has requested but that have not yet become part of the Credit Line Obligations as of the effective date of the notice. No notice will release or in any other way affect the Bank's interest in the Collateral. All subsequent requests to reinstate credit privileges must be signed by all Joint Borrowers comprising the Borrower, including the Joint Borrower requesting the suspension of credit privileges. Any reinstatement will be granted or denied in the sole and absolute discretion of the Bank.

c) All Credit Line Obligations will become immediately due and payable in full as of the effective date of any suspension or cancellation of the Credit Line. The borrower will be responsible for the payment of all charges incurred on the Advances after the effective date. The Bank will not release any Loan Party from any of the obligations under this Agreement or any related agreement until the Credit Line Obligations have been paid in full and this Agreement has been terminated.

8) Collateral; Grant of Security Interest; Set-off

a) To secure payment or performance of the Credit Line Obligations, the Borrower assigns, transfers and pledges to the Bank, and grants to the Bank a first priority lien and security interest in the following assets and rights of the Borrower, wherever located and whether owned now or acquired or arising in the future: (i) each Collateral Account; (ii) any and all money, credit balances, certificated and uncertificated securities, security entitlements, commodity contracts, certificates of deposit, instruments, documents, partnership interests, general intangibles, financial assets and other investment property now or in the future credited to or carried, held or maintained in any Collateral Account; (iii) any and all over-the-counter options, futures, foreign exchange, swap or similar contracts between the Borrower and either UBS Financial Services Inc. or any of its affiliates; (iv) any and all accounts of the Borrower at the Bank or any of its affiliates; (v) any and all supporting obligations and other rights ancillary or attributable to, or arising in any way in connection with, any of the foregoing; and (vi) any and all interest, dividends, distributions and other proceeds of any of the foregoing, including proceeds of proceeds (collectively, the "Collateral").

b) The Borrower and if applicable, any Pledgor on the Collateral Account, will take all actions reasonably requested by the Bank to evidence, maintain and perfect the Bank's first priority security interest in, and to enable the Bank to obtain control over, the Collateral and any additional collateral pledged by the Pledgors, including but not limited to making, executing, recording and delivering to the Bank (and authorizes the Bank to file, without

the signature of the Borrower and any Pledgor where permitted by applicable law) financing statements and amendments thereto, control agreements, notices, assignments, listings, powers, consents and other documents regarding the Collateral and the Bank's security interest in the Collateral in such jurisdiction and in a form as the Bank reasonably may require. Each Loan Party irrevocably authorizes and appoints each of the Bank and UBS Financial Services Inc., as collateral agent, to act as their agent and attorney-in-fact to file any documents or to execute any .documents in their name, with or without designation of authority Each Loan Party acknowledges that it will be obligated in respect of the documentation as if it had executed the documentation itself.

c) The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees to maintain in a Collateral Account, at all times, Collateral having an aggregate lending value as specified by the Bank from time to time.

d) The Bank's sole duty for the custody, safe keeping and physical preservation of any Collateral in its possession will be to deal with the Collateral in the same manner as the Bank deals with similar property for its own account. The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that the Bank will have no responsibility to act on any notice of corporate actions or events provided to holders of securities or other investment property included in the Collateral. The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees to (i) notify the Bank promptly upon receipt of any communication to holders of the investment property disclosing or proposing any stock split, stock dividend, extraordinary cash dividend, spin-off or other corporate action or event as a result of which the Borrower or Pledgor would receive securities, cash (other than ordinary cash dividends) or other assets in respect of the investment property, and (ii) immediately upon receipt by the Borrower or Pledgor of any of these assets, cause them to be credited to a Collateral Account or deliver them to or as directed by the Bank as additional Collateral.

e) The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that all principal, interest, dividends, distributions, premiums or other income and other payments received by the Bank or credited to the Collateral Account in respect of any Collateral may be held by the Bank as additional Collateral or applied by the Bank to the Credit Line Obligations. The Bank may create a security interest in any of the Collateral and may, at any time and at its option, transfer any securities or other investment property constituting Collateral to a securities account maintained in its name or cause any Collateral Account to be redesignated or renamed in the name of the Bank.

f) The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that if a Collateral Account has margin features, the margin features will be removed by UBS Financial Services Inc. or UBS International Inc., as applicable, so long as there is no outstanding margin debit in the Collateral Account.

g) If the Collateral Account permits cash withdrawals in the form of check writing, access card charges, bill payment and/ or electronic funds transfer services (for example, Resource Management Account®, Business Services Account BSA®, certain Basic Investment Accounts and certain accounts enrolled in UBS Financial Services Inc. Investment Consulting Services programs), the Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that the "Withdrawal Limit" for the Collateral Account, as described in the documentation governing the account will be reduced on an ongoing basis so that the aggregate lending value of the Collateral remaining in the Collateral Account following the withdrawal may not be less than the amount required pursuant to Section 8(c),

h) In addition to the Bank's security interest, the Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that the Bank will at all times have a right to set off any or all of the Credit Line Obligations at or after the time at which they become due, whether upon demand, at a stated maturity date, by acceleration or otherwise, against all securities, cash, deposits or other property in the possession of or at any time in any account maintained with the Bank or any of its affiliates by or for the benefit of the Borrower, whether carried individually or jointly with others. This right is in addition to, and not in limitation of, any right the Bank may have at law or otherwise.

i) The Bank reserves the right to disapprove any Collateral and to require the Borrower at any time to deposit into the Borrower's Collateral Account additional Collateral in the amount as the Bank requests or to substitute new or additional Collateral for any Collateral that has previously been deposited in the Collateral Account.

9) Control

For the purpose of giving the Bank control over each Collateral Account and in order to perfect the Bank's security interests in the Collateral, the Borrower and each Pledgor on the applicable Collateral Account consents to compliance by UBS Financial Services inc., UBS-I or any other securities intermediary (in any case, the "Securities Intermediary") maintaining a Collateral Account with entitlement orders and instructions from the Bank (or from any assignee or successor of the Bank) regarding the Collateral Account and any financial assets or other property held therein without the further consent of the Borrower or any other Pledgor on the applicable Collateral Account. Without limiting the foregoing, the Borrower and each Pledgor on the Collateral Account acknowledges, consents and agrees that, pursuant to a control agreement entered into between the Bank and the Securities Intermediary:

a) The Securities Intermediary will comply with entitlement orders originated by the Bank regarding any Collateral Account without further consent from the Borrower or any Pledgor. The Securities Intermediary will treat all assets credited to a Collateral Account, including money and credit balances, as financial assets for purposes of Article 8 of the Uniform Commercial Code.

b) In order to enable the Borrower and any Pledgor on the applicable Collateral Account to trade financial assets that are from time to time credited to a Collateral Account, the Securities Intermediary may comply with entitlement orders originated by the Borrower or any Pledgor on the applicable Collateral Account (or if so agreed by the Bank, by an investment adviser designated by the Borrower or any Pledgor on the applicable Collateral Account and acceptable to the Bank and the Securities Intermediary) regarding the Collateral Account, but only until the time that the Bank notifies the Securities Intermediary, that the Bank is asserting exclusive control over the Collateral Account. After the Securities Intermediary has received a notice of exclusive control and has had a reasonable opportunity to comply, it will no longer comply with entitlement orders originated by the Borrower or any Pledgor (or by any investment adviser designated by the Borrower or any Pledgor) concerning the Collateral Account, Notwithstanding the foregoing, however, and irrespective of whether it has received any notice of exclusive control, the Securities intermediary will not comply with any entitlement order originated by the Borrower or any Pledgor (or by any investment adviser designated by the Borrower or any Pledgor) to withdrawal financial assets from a Collateral Account or to pay any money, free credit balance or other amount owing on a Collateral Account (other than cash withdrawals and payments not exceeding the “Withdrawal Limit” as contemplated in Section 8 (g)) without the prior consent of the Bank.

10) Remedies

a) If any of the following events (each, an "Event") occurs:

(i) the Borrower fails to pay any amount due under this Agreement;

(ii) the Borrower and/or any other relevant Loan Party fails to maintain sufficient Collateral in a Collateral Account as required by the Bank or any Guarantor fails to maintain collateral as required by the Bank under its Guaranty Agreement;

(iii) the Borrower or any other Loan Party breaches or fails to perform any other covenant, agreement, term or condition that is applicable to it under this Agreement or any related agreement, or any representation or other statement of the Borrower (or any Loan Party) in this Agreement or in any related agreement is incorrect in any material respect when made or deemed made;

(iv) the Borrower or any other Loan Party dies or is declared (by appropriate authority) incompetent or of unsound mind or is indicted or convicted of any crime or, if not an individual, ceases to exist;

(v) any voluntary or involuntary proceeding for bankruptcy, reorganization, dissolution or liquidation or similar action is commenced by or against the Borrower or any other Loan Party, or a trustee in bankruptcy, receiver, conservator or rehabilitator is appointed, or an assignment for the benefit of creditors is made, with respect to the Borrower or any other Loan Party or its property;

(vi) the Borrower or any Loan Party is insolvent, unable to pay its debts as they fall due, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, begins negotiations or takes any proceeding or other step with a view to readjustment, rescheduling or deferral of all or any part of its indebtedness, which it would or might otherwise be unable to pay when due, or proposes or makes a general assignment or an arrangement or composition with or for the benefit of its creditors;

(vii) a Collateral Account (or any account in which collateral provided by a Loan Party is maintained) or any portion thereof is terminated, attached or subjected to a levy;

(viii) the Borrower or any Loan Party fails to provide promptly all financial and other information as the Bank may request from time to time;

(ix) any indebtedness of the Borrower or any other Loan Party in respect of borrowed money (including indebtedness guarantied by the Borrower or any other Loan Party) or in respect of any swap, forward, cap, floor, collar, option or other derivative transaction, repurchase or similar transaction or any combination of these transactions is not paid when due, or any event or condition causes the indebtedness to become, or permits the holder to declare the indebtedness to be, due and payable prior to its stated maturity;

(x) final judgment for the payment of money is rendered against Borrower (or any Loan Party) and, within thirty days from the entry of Judgment, has not been discharged or stayed pending appeal or has not been discharged within thirty days from the entry of a final order of affirmance on appeal;

(xi) any legal proceeding is instituted or any other event occurs or condition exists that in the Bank's judgment calls into question (A) the validity or binding effect of this Agreement or any related agreement or any of the Borrower's (or any other Loan Party's) obligations under this Agreement or under any related agreement or (B) the ability of the Borrower (or any Loan Party) to perform its obligations under this Agreement, or under any related agreement; or

(xii) the Bank otherwise deems itself or its security interest in the Collateral insecure or the Bank believes in good faith that the prospect of payment or other performance by any Loan Party is impaired.

then, the Credit Line Obligations will become immediately due and payable (without demand) and the Bank may, in its sole and absolute discretion, liquidate, withdraw or sell all or any part of the Collateral and apply the same, as well as the proceeds of any liquidation or sale, to any amounts owed to the Bank, including any applicable Breakage Costs and Breakage Fee. The Bank will not be liable to any Loan Party in any way for any adverse consequences (for tax effect or otherwise) resulting from the liquidation of appreciated Collateral. Without limiting the generality of the foregoing, the sale may be made in the Bank's sole and absolute discretion by public sale on any exchange or market where business is then usually transacted or by private sale, and the Bank may be the purchaser at any public or private sale. Any Collateral that may decline speedily in value or that customarily is sold on a recognized exchange or market may be sold without providing any Loan Party with prior notice of the sale. Each Loan

Party agrees that, for all other Collateral, two calendar days notice to the Loan Party, sent to its last address shown in the Bank's account records, will be deemed reasonable notice of the time and place of any public safe or time after which any private sale or other disposition of the Collateral may occur. Any amounts due and not paid on any Advance following an Event will bear interest from the day following the Event until fully paid at a rate per annum equal to the interest rate applicable to the Advance immediately prior to the Event plus 2.00%. In addition to the Bank's rights under this Agreement, the Bank will have the right to exercise any one or more of the rights and remedies of a secured creditor under the Utah Uniform Commercial Code, as then in effect, or under any other applicable law.

b) Nothing contained in this Section 10 will limit the right of the Bank to demand full or partial payment of the Credit Line Obligations, in its sole and absolute discretion and without cause, at any time, whether or not an Event has occurred and is continuing.

c) All rights and remedies of the Bank under this Agreement are cumulative and are in addition to all other rights and remedies that the Bank may have at law or equity or under any other contract or other writing for the enforcement of the security interest herein or the collection of any amount due under this Agreement.

d) Any non-exercise of rights, remedies and powers by the Bank under this Agreement and the other documents delivered in connection with this Agreement shall not be construed as a waiver of any rights, remedies and powers. The Bank fully reserves its rights to invoke any of its rights, remedies and powers at any time it may deem appropriate.

11) Representations, Warranties and Covenants by the Loan Parties

Each Borrower and each other Loan Party (if applicable) makes the following representations, warranties and covenants (and each Borrower will be deemed to have repeated each representation and warranty each time a Borrower requests an Advance) to the Bank:

a) Except for the Bank's rights under this Agreement and the rights of the Securities Intermediary under any account agreement, the Borrower and each relevant Pledgor owns the Collateral, free of any interest, lien or security interest in favor of any third party and free of any impediment to transfer;

b) Each Loan Party: (i) if a natural Person, is of the age of majority; (ii) is authorized to execute and deliver this Agreement and to perform its obligations under this Agreement and any related agreement; (iii) is not an employee benefit plan, as that term is defined by the Employee Retirement Income Security Act of 1974, or an Individual Retirement Credit Line Account (and none of the Collateral is an asset of a plan or account); and (iv) unless the Loan Party advises the Bank to the contrary, in writing, and provides the Bank with a letter of approval, where required, from its employer, is not an employee or member of any exchange or of any corporation or firm engaged in the business of dealing, either as a broker or as principal, in securities, bills of exchange, acceptances or other forms of commercial paper;

c) Neither the Borrower nor any Pledgor on the Collateral Account has pledged or will pledge the Collateral or grant a security interest in the Collateral to any party other than the Bank or the Securities Intermediary or has permitted or will permit the Collateral to become subject to any liens or encumbrances (other than those of the Bank and the Securities Intermediary), during the term of this Agreement;

d) No Loan Party is in default under any material contract, judgment, decree or order to which it is a party or by which it or its properties may be bound;

e) Each Loan Party has duly filed all tax and information returns required to be filed and has paid all taxes, fees, assessments and other governmental charges or levies that have become due and payable, except to the extent such taxes or other charges are being contested in good faith and are adequately reserved against in accordance with GAAP.

f) The Borrower and each relevant pledgor (i) is and at all times will continue to be the legal and beneficial owner of all assets held in or credited to any Collateral Account or otherwise included in the Collateral, and (ii) does not hold any assets held in or credited to any Collateral Account or otherwise included in the Collateral in trust or subject to any contractual or other restrictions on use that would prevent the use of such assets to (a) repay the Bank or (b) be pledged as Collateral in favor of the Bank.

The provisions of this Section 11 will survive the termination of this Agreement or any related agreement and the repayment of the Credit Line Obligations,

12) Indemnification; Limitation on Liability of the Bank and the Securities Intermediary

Borrower agrees to indemnify and hold harmless the Bank and the Securities Intermediary, their affiliates and their respective directors, officers, agents and employees against any and all claims, causes of action, liabilities, lawsuits, demands and damages, for example, any and all court costs and reasonable attorneys fees, in any way relating to or arising out of or in connection with this Agreement, except to the extent caused by the Bank's or Securities intermediary's breach of its obligations under this Agreement. Neither the Bank nor the Securities Intermediary will be liable to any party for any consequential damages arising out of any act or omission by either of them with respect to this Agreement or any Advance or Collateral Account. The provisions of this Section 12 will survive the termination of this Agreement or any related agreement and the repayment of the Credit Line Obligations.

13) Acceptance of Application and Agreement; Applicable Law

THIS APPLICATION AND AGREEMENT WILL BE RECEIVED AND ACCEPTED BY BANK IN THE STATE OF UTAH, OR IF THIS APPLICATION AND AGREEMENT IS DELIVERED TO BANK'S AGENT, UBS FINANCIAL SERVICES INC., IT WILL BE RECEIVED AND ACCEPTED WHEN RECEIVED BY UBS FINANCIAL SERVICES INC'S UNDERWRITING DEPARTMENT. DELIVERY OF THE APPLICATION AND AGREEMENT TO THE BORROWER'S FINANCIAL ADVISOR AT UBS FINANCIAL SERVICES INC. WILL NOT BE CONSIDERED RECEIPT OR ACCEPTANCE BY BANK. ALL DECISIONS MADE BY BANK REGARDING THE CREDIT LINE WILL BE MADE IN UTAH.

THIS AGREEMENT WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF UTAH APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED ENTIRELY IN THE STATE OF UTAH AND, IN CONNECTION WITH THE CHOICE OF LAW GOVERNING INTEREST, THE FEDERAL LAWS OF THE UNITED STATES, EXCEPT THAT WITH RESPECT TO THE COLLATERAL ACCOUNT AND THE BANK'S SECURITY INTEREST THEREIN, THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, INCLUDING, WITHOUT LIMITATION, THE NEW YORK UNIFORM COMMERCIAL CODE, AND FOR PURPOSES OF THIS AGREEMENT, THE COLLATERAL ACCOUNT AND THE BANK'S SECURITY INTEREST THEREIN, THE JURISDICTION OF UBS FINANCIAL SERVICES INC. AND UBS-I SHALL BE DEEMED TO BE THE STATE OF NEW YORK.

14) Assignment

This Agreement may not be assigned by the Borrower without the prior written consent of the Bank. This Agreement will be binding upon and inure to the benefit of the heirs, successors and permitted assigns of the Borrower. The Bank may assign this Agreement, and this Agreement will inure to the benefit of the Bank's successors and assigns.

15) Amendment

This Agreement may be amended only by the Bank, including, but not limited to, (i) the addition or deletion of any provision of this Agreement and (ii) the amendment of the (x) "Spread Over LIBOR/UBS Bank USA Fixed Funding Rate" in Schedule I or (y) "Spread Over Prime" in Schedule II to this Agreement, at any time by sending written notice, signed by an authorized officer of the Bank, of an amendment to the Borrower. The amendment shall be effective as of the date established by the Bank. This Agreement may not be amended orally. The Borrower or the Bank may waive compliance with any provision of this Agreement, but any waiver must be in writing and will not be deemed to be a waiver of any other provision of this Agreement. The provisions of this Agreement constitute the entire agreement between the Bank and the Borrower with respect to the subject matter hereof and supersede all prior or contemporaneous agreements, proposals, understandings and representations, written or oral, between the parties with respect to the subject matter hereof.

16) Severability

If any provision of this Agreement is held to be invalid, illegal, void or unenforceable, by reason of any law, rule, administrative order or judicial or arbitral decision, the determination will not affect the validity of the remaining provisions of this Agreement.

17) Choice of Forum; Waiver of Jury Trial

a) ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY JUDGMENT ENTERED BY ANY COURT REGARDING THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT WILL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE

THIRD JUDICIAL DISTRICT COURT FOR THE STATE OF UTAH OR IN THE UNITED STATES DISTRICT COURT FOR THE STATE OF UTAH. EACH OF THE LOAN PARTIES IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE THIRD JUDICIAL DISTRICT COURT FOR THE STATE OF UTAH AND OF THE UNITED STATES DISTRICT COURT FOR THE STATE OF UTAH FOR THE PURPOSE OF ANY SUCH ACTION OR PROCEEDING AS SET FORTH ABOVE AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH SUCH ACTION OR PROCEEDING. EACH OF THE LOAN PARTIES IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY HAVE NOW OR IN THE FUTURE TO THE LAYING OF VENUE OF ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH ACTION OR PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

b) EACH OF THE LOAN PARTIES (FOR ITSELF, ANYONE CLAIMING THROUGH IT OR IN ITS NAME, AND ON BEHALF OF ITS EQUITY HOLDERS) IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY REGARDING ANY CLAIM BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT.

c) Any arbitration proceeding between the Borrower (or any other Loan Party) and the Securities Intermediary, regardless of whether or not based on circumstances related to any court proceedings between the Bank and the Borrower (or the other Loan Party), will not provide a basis for any stay of the court proceedings.

d) Nothing in this Section 17 will be deemed to alter any agreement to arbitrate any controversies which may arise between the Borrower (or any other Loan Party) and UBS Financial Services Inc. or its predecessors, and any claims between the Borrower or the Loan Party, as applicable, and UBS Financial Services Inc. or its employees (whether or not they have acted as agents of the Bank) will be arbitrated as provided in any agreement between the Borrower or the Loan Party, as applicable, and UBS Financial Services Inc.

18) State Specific Provisions and Disclosures

a) For residents of Ohio:

The Ohio laws against discrimination require that all creditors make credit equally available to all creditworthy customers, and that credit reporting agencies maintain separate credit histories on each individual upon request. The Ohio civil rights commission administers compliance with this law.

b) For residents of Oregon:

NOTICE TO BORROWER: DO NOT SIGN THIS AGREEMENT BEFORE YOU READ IT. THIS AGREEMENT PROVIDES FOR THE PAYMENT OF A PENALTY IF YOU WISH TO REPAY A FIXED RATE ADVANCE PRIOR TO THE DATE PROVIDED FOR REPAYMENT IN THE AGREEMENT.

c) For residents of Vermont:

NOTICE TO BORROWER: THE ADVANCES MADE UNDER THIS AGREEMENT ARE DEMAND LOANS AND SO MAY BE COLLECTED BY THE LENDER AT ANY TIME. A NEW LOAN MUTUALLY AGREED UPON AND SUBSEQUENTLY ISSUED MAY CARRY A HIGHER OR LOWER RATE OF INTEREST.

NOTICE TO JOINT BORROWER: YOUR SIGNATURE ON THE AGREEMENT MEANS THAT YOU ARE EQUALLY LIABLE FOR REPAYMENT OF THIS LOAN. IF THE BORROWER DOES NOT PAY, THE LENDER HAS A LEGAL RIGHT TO COLLECT FROM YOU.

d) For residents of California:

(i) Any person, whether married, unmarried, or separated, may apply for separate credit.

(ii) As required by law, you are notified that a negative credit report reflecting on your credit record may be submitted to a credit reporting agency if you fail to fulfill the terms of your credit obligations,

(iii) The Borrower will notify the Bank, within a reasonable time, of any change in the Borrower's name, address, or employment.

(iv) **The Borrower will not attempt to obtain any Advance if the Borrower knows that the Borrower's credit privileges under the Credit Line have been terminated or suspended.**

(v) **The Borrower will notify the Bank by telephone, telegraph, letter, or any other reasonable means that an unauthorized use of the Credit Line has occurred or may occur as the result of the loss or theft of a credit card or other instrument identifying the Credit Line, within a reasonable time after the Borrower's discovery of the loss or theft, and will reasonably assist the Bank in determining the facts and circumstances relating to any unauthorized use of the Credit Line.**

19) Account Agreement

Each Loan Party acknowledges and agrees that this Agreement supplements their account agreements) with the Securities Intermediary relating to the Collateral Account and, if applicable, any related account management agreement(s) between the Loan Party and the Securities Intermediary. In the event of a conflict between the terms of this Agreement and any other agreement between the Loan Party and the Securities Intermediary, the terms of this Agreement will prevail.

20) Notices

Unless otherwise required by law, all notices to a Loan Party may be oral or in writing, in the Bank's discretion, and if in writing, delivered or mailed by the United States mail, or by overnight carrier or by telecopy to the address of the Loan Party shown on the records of the Bank. Each Loan Party agrees to send notices to the Bank, in writing, at such address as provided by the Bank from time to time.

UBS

UBS Bank USA

Variable Credit Line Account Number: *(if applicable)*

Fixed Credit Line Account Number: *(if applicable)*

SS# / TIN

Internal Use Only

Credit Line Agreement

Schedule I to UBS Bank USA Credit Line Agreement
Schedule of Percentage Spreads Over LIBOR or the UBS Bank USA Fixed Funding Rate, as applicable

Aggregate Approved Amount	Spread Over LIBOR/UBS Bank USA Fixed Funding Rate
$100,000 to $249,999	5.00%
$250,000 to $499,999	3.00%
$500,000 to $999,999	2.00%
$1,000,000 to $2,499,999	1.75%
$2,500,000 to $4,999,999	1.50%
$5,000,000 and over	1.25%

Schedule II to UBS Bank USA Credit Line Agreement
Schedule of Percentage Spreads Over Prime

Outstanding Amount under Credit Line	Spread Over Prime
$0 to $49,999	3.50%
$50,000 to $99,999	3.00%

NOTICE TO CO-SIGNER (Traduccion en Ingles Se Requiere Por La Ley)

You are being asked to guarantee this debt. Think carefully before you do. If the borrower doesn't pay the debt, you will have to. Be sure you can afford to pay if you have to, and that you want to accept this responsibility.

You may have to pay to the full amount of the debt if the borrower does not pay. You may also have to pay late fees or collection costs, which increase this amount.

The creditor can collect this debt from you without first trying to collect from the borrower. The creditor can use the same collection methods against you that can be used against the borrower, such as suing you, garnishing your wages, etc. If this debt is ever in default, that fact may become a part of your credit record.

This notice is not the contract that makes you liable for the debt.

AVISO PARA EL FIADOR (Spanish Translation Required By Law)

Se le esta pidiendo que garantice esta deuda. Pienselo con cuidado antes de ponerse de acuerdo. Si la persona que ha pedido este prestamo no paga la deuda, usted tendra que pagarla. Este seguro de que usted podra pagar si sea obligado a pagarla y de que usted desea aceptar la responsabilidad.

Si la persona que ha pedido el prestamo no paga la deuda, es posible que usted tenga que pagar la suma total de la deuda, mas los cargos por tardarse en el pago o el costo de cobranza, lo cual aumenta el total de esta suma.

El acreedor (financiero) puede cobrarle a usted sin, primeramente, tratar de cobrarle al deudor. Los mismos metodos de cobranza que pueden usarse contra el deudor, podran usarse contra usted, tales como presentar una demanda en corte, quitar parte de su sueldo, etc. Si alguna vez no se cumpla con la obligacion de pagar esta deuda, se puede incluir esa informacion en la historia de credito de usted.

Este aviso no es el contrato mismo en que se le echa a usted la responsabilidad de la deuda.

UBS

UBS Bank USA

KU

ADDENDUM TO CREDIT LINE ACCOUNT APPLICATION AND AGREEMENT

Credit Line Account **Account Number**
Cepheid

Collateral Account **Account Number**
Cepheid

This Addendum (this "Addendum") is attached to, incorporated by reference into and is fully a part of the Credit Line Account Application and Agreement between UBS Bank USA (the "Bank") and the borrower named in the signature area below (the "Borrower"), dated as of the date hereof (as amended or otherwise modified from time to time, the "Agreement"). This Addendum and the Agreement shall not become effective and binding upon the Bank until this Addendum has been executed by the Borrower and accepted by the Bank at its home office. Any conflict between the terms of the Agreement and this Addendum shall be resolved in accordance with the terms of this Addendum. Defined terms used herein to have the respective meanings set forth in the Agreement unless otherwise defined in this Addendum.

A. The Bank, UBS Financial Services Inc. and the Borrower each acknowledge and agree that:

Definitions

1. The Agreement is amended by adding the following definitions in Section 1:

"• "Additional Payments" has the meaning specified in Section 5 g).

• "ARS Collateral" means any and all Collateral consisting of Auction Rate Securities.

• "ARS Payments" has the meaning specified in Section 5 g).

• "Auction Rate Securities" means any and all securities determined by the Bank, in its sole and absolute discretion, as being commonly referred to as "Auction Rate Securities," which, for greater certainty, include, without limitation, debt securities on which the interest rate payable is periodically re-set by an auction process and/or equity securities on which any dividend payable is periodically re-set by an auction process.

• "Taxable SLARC Maximum Auction Rate" means the applicable "reset rate," "maximum auction rate" or other similar rate as may be specified in the prospectus or other documentation governing any applicable Taxable Student Loan Auction Rate Securities as representing the failed auction rate or similar rate payable on such Auction Rate Securities, in each case expressed as a per-annum rate and as calculated in the Bank's sole and absolute discretion.

• "Taxable Student Loan Auction Rate Securities" means any and all Auction Rate Securities Collateral consisting of securities determined by the Bank, in its sole and absolute discretion, as being commonly referred to as "Student Loan Auction Rate Securities" and on which the interest or dividend rate paid or payable to the Borrower by the issuer of such securities is taxable to the Borrower."

Terms of Advances

2. The Agreement is amended by adding the following as Section 3 e):

"The Borrower acknowledges that the Bank will not make an Advance against the ARS Collateral in amounts equal to the fair market or par value of the ARS Collateral unless the Borrower arranges for another person or entity to provide additional collateral or assurances on terms and conditions satisfactory to the Bank. In requesting an Approved Amount equal to the par value of the ARS Collateral, the Borrower has arranged for UBS Financial Services Inc. to provide, directly or through a third party, the pledge of additional collateral and/or assurances to the Bank so that the Bank will consider making Advances from time to time in accordance with the terms of this Agreement and in amounts equal to, in the aggregate, the par value of the ARS Collateral at the date of an Advance. In addition, the Borrower, the Bank and UBS Financial Services Inc. acknowledge and agree that if (a) the Bank is repaid all of the Credit Line Obligations due to the Bank under the Agreement and this Addendum and (b) as part of such repayment, the Bank realizes on the additional collateral and/or assurances pledged or otherwise provided by UBS Financial Services and/or any such third party to the Bank, then the Agreement shall not terminate and the Bank shall automatically assign to UBS Financial Services Inc. and any such third party, and UBS Financial Services Inc. and any such third party shall automatically assume and be subrogated to, all of the Bank's rights, claims and interest in and under the Agreement and this Addendum, including without limitation, the security interest in the Collateral including without limitation the ARS Collateral, granted the Bank under the Agreement and this Addendum (further including, without limitation, interest, dividends, distributions, premiums, other income and payments received in respect of any and all such Collateral) to the extent of the amount that the Bank has realized on all or any part of the additional collateral and/or assurances pledged or otherwise provided by UBS Financial Services and/or any such third party to the Bank in order to effect the repayment of the Credit Line Obligations due to the Bank under the Agreement. Upon such automatic assignment and subrogation, UBS Financial Services Inc. and any such third party shall be entitled to directly exercise any and all rights and remedies afforded the Bank under the Agreement, this Addendum and any and all other documents and agreements entered into in connection with the Agreement and/or this Addendum."

Interest

3. The Agreement is amended by adding the following as a new Section 4 d), Section 4 e) and Section 4 f):

"d) Notwithstanding anything to the contrary in this Agreement, and subject to the provisions of Sections 4 e) and f) of this Agreement, the interest rate charged on any and all outstanding Variable Rate Advances shall be the lesser of (i) the amount prescribed by Sections 4 a), b), or c) of this Agreement, as applicable, and (ii) the then applicable weighted average rate of interest or dividend rate paid to the Borrower by the issuer of the ARS Collateral.

e) The Bank and the Borrower acknowledge and agree that the Bank shall be entitled to determine or adjust, at any time and from time to time, the interest rate payable by the Borrower to the Bank on all or any part of the outstanding Variable Rate Advances to reflect any changes in the composition of the ARS Collateral, to address any inability to determine interest rates, or for any other reason that, in the Bank's sole and absolute discretion, is necessary to give effect to the intent of the provisions of this Agreement, including, without limitation, this Section 4 (it being acknowledged and agreed that the provisions of this Section 4 are intended to cause the interest payable by the Borrower under this Agreement to equal the interest or dividend rate payable to the Borrower by the issuer of any ARS Collateral) and any and all such adjustments by the Bank hereunder shall be conclusive and binding on the Bank and The Borrower absent manifest error.

f) if and to the extent that any or all of the ARS Collateral consists of Taxable Student Loan Auction Rate Securities, then notwithstanding anything to the contrary in this Agreement, when calculating such weighted average interest rate, the interest rate paid to the Borrower with respect to such Taxable Student Loan Auction Rate Securities shall be deemed to be equal to (i) for the period from the date of this Addendum through and including January 21, 2009, the applicable coupon rate(s) and (ii) from January 22, 2009 and thereafter, the then applicable Taxable SLARC Maximum Auction Rate, for, and to the extent of, such Taxable Student Loan Auction Rate Securities, The Borrower will be charged interest on the Loan in months in which the Borrower does not receive interest on the Taxable Student Loan Auction Rate Securities."

Payments

4. The Agreement is amended by adding the following as Section 5 g):

"The Borrower will make additional payments ("Additional Payments") as follows:

- The proceeds of any liquidation, redemption, sale or other disposition of all or part of the ARS Collateral will be automatically transferred to the Bank as payments. The amount of these payments will be determined by the proceeds received in the Collateral Account, and may be as much as the total Credit Line Obligations,

- All other interest, dividends, distributions, premiums, other income and payments that are received in the Collateral Account in respect of any ARS Collateral will be automatically transferred to the Bank as payments. These are referred to as "ARS Payments." The amount of each ARS Payment will vary, based on the proceeds received in the Collateral Account. The Bank estimates that the ARS Payments will range from zero to fifteen ($ 15 .00) dollars per month per $ 1.000 in par value of Pledged ARS. The Bank will notify the Borrower at least ten (10) days in advance of any ARS Payment that falls outside of this range. If the Borrower would prefer to have advance notice of each payment to be made to Advances, the Borrower may cancel ARS Payments as described below.

- The Borrower agrees that any cash, check or other deposit (other than a deposit of securities) made to the Collateral Account is an individual authorization to have such amount transferred to the Bank as a payment. The amount of each payment is the amount of the deposit.

Each Additional Payment will be applied, as of the date received by the Bank, in the manner set forth in the last sentence of Section 5 d). The Borrower acknowledges that neither the Bank nor UBS financial Services Inc. sets or arranges for any schedule of Additional Payments. Instead, Additional Payments will be transferred automatically from the Collateral Account whenever amounts are received in the Collateral Account, generally on the second Business Day after receipt.

The Borrower may elect to stop ARS Payments at any time, and this election will cancel all ARS Payments that would occur three (3) Business Days or more after the Bank receives such notice. If the Borrower stops ARS Payments, the Borrower will continue to be obligated to pay principal, interest, and other amounts pursuant to the Agreement. If the Borrower elects to cancel ARS Payments, all other Additional Payments will be cancelled. Cancelling ARS Payments and Additional Payments may result in higher interest charges by the Bank because amounts received in the Collateral Account will not be automatically transferred and credited. Any amounts received in the Collateral Account will remain in the Collateral Account unless the Bank permits you to withdraw all or part of such amounts. Your notice to cancel must be sent to; Attention: Head of Credit Risk Monitoring, UBS Bank USA, 299 South Main Street. Suite 2275. Salt Lake City, Utah 84111. or call (801) 741-0310.

Important Disclosure About Required Payments. If Additional Payments are sufficient to pay all accrued interest on Advances on or before a due date, then the Borrower need not make an additional interest payment. Excess Additional Payments will be applied against principal. However, if Additional Payments are not sufficient to pay all accrued interest on Advances on or before a due date, then the Bank may, in its sole discretion (1) capitalize unpaid interest as an additional Advance, or (2) require the Borrower to make payment of all accrued and unpaid interest."

Remedies

5. The Agreement is amended by adding the following as Section 10 e):

"The Borrower agrees that in the event the Bank determines to liquidate or sell any Collateral, the Bank shall, to the fullest extent permitted by applicable law, have the right to do so in any manner, including, without limitation, the sale of Collateral individually or in a block, for cash or for credit, in a public or private sale, with or without public notice, through the use of sealed bids or otherwise, with the aid of any advisor or agent who may be an affiliate of the Bank or in any other manner as the Bank in its sole discretion shall choose. The Borrower acknowledges that the price the Bank obtains for Collateral in the Bank's chosen method of safe may be lower than might be otherwise obtained in another method of sale, and the Borrower hereby agrees that any such sale shall not be considered to be not commercially reasonable solely because of such lower price. The Borrower understands that there may not be a liquid market for the Collateral and that, as a result, the price received for the Collateral upon liquidation or sale by the Bank may be substantially less than the Borrower paid for such Collateral or than the last market value available for it, if any The Borrower further agrees that any sale by the Bank shall not be considered to be not commercially reasonable solely because there are few (including only one) or no third parties who submit bids or otherwise offer to buy the Collateral, The Borrower understands that the Bank's sale of any of the Collateral may be subject to various stale and federal property and/or securities laws and regulations, and that compliance with such laws and regulations may result in delays and/or a lower price being obtained for the Collateral. The Borrower agrees that the Bank shall have the right to restrict any prospective purchasers to those who, in the Bank's sole discretion, the Bank deems to be qualified. The Borrower acknowledges that the Bank shall have sole authority to determine, without limitation, the time, place, method of advertisement and manner of sale and that the Bank may delay or adjourn any such sale in its sole discretion. The Borrower expressly authorizes the Bank to take any action with respect to the Collateral as the Bank deems necessary or advisable to facilitate any liquidation or sale, and the Borrower agrees that the Bank shall not be held liable for taking or failing to lake any such action, regardless if a greater price may have been obtained for the Collateral if such action was or was not taken as applicable. The Borrower hereby waives, to the fullest extent permitted by law, any legal right of appraisal, notice, valuation, stay, extension, moratorium or redemption that the Borrower would otherwise have with respect to a sale of the Collateral."

Representations, Warranties and Covenants by the Loan Parties

6. The Agreement is amended by adding the following as Section 11 g):

"g) If at any time there are Credit Line Obligations outstanding under the Credit Line, then in connection with any ARS Collateral, if at any time any such ARS Collateral may be sold, exchanged, redeemed, transferred or otherwise conveyed by the Borrower for gross proceeds: that are, in the aggregate, not less than the par value of such Auction Rate Securities to any party, including, without limitation, to UBS financial Services Inc. and/or any of its affiliates (any such sale, exchange, redemption, transfer or conveyance referred to herein as an "ARS liquidation"), the Borrower agrees (i) to immediately effect such ARS Liquidation to the extent necessary to satisfy all Credit Line Obligations in full and (ii) that the proceeds of any such ARS Liquidation so effected shall be immediately and automatically used to pay down any and all such outstanding Credit Line Obligations to the extent of such proceeds. The Borrower hereby acknowledges and agrees with the Bank and directs UBS Financial Services Inc. that to the extent permitted by applicable law, this Section 11 g) shall constitute an irrevocable instruction, direction and standing sell order to UBS Financial Services Inc. to effect, an ARS Liquidation to the extent it is possible to do so at anytime during the term of this Agreement. The Borrower further agrees with the Bank and UBS Financial Services Inc. to execute and deliver to the Bank and/or UBS Financial Services Inc. such further documents and agreements as may be necessary in the sole and absolute discretion of the Bank and/or UBS Financial Services Inc. to effect the foregoing irrevocable instruction, direction and standing sell order."

Waivers

7. The Agreement is amended by adding the following as Section 21:

"The Borrower hereby (i) acknowledges and admits its indebtedness and obligations to the Bank under the Agreement; and (ii) acknowledges, admits and agrees that it has no and shall assert no defenses, offsets, counterclaims or claims in respect of its obligations under the Agreement, in each case notwithstanding any claim or asserted claim that it may have, or purport to have, against any affiliate of the Bank."

Schedules I and II

8. a) Schedule I of the Agreement is amended in its entirety to read as follows:

$25,001 to $499,999	2.750%
$500,000 to $999,999	1.750%
$1,000,000 to $4,999,999	1.500%
$5,000,000 and over	1.250%

b) Schedule II of the Agreement is deleted in its entirety and replaced with; "[Intentionally Deleted]."

No Fixed Rate Advance/Prime Credit Lines

9. The Bank and the Borrower acknowledge and agree that notwithstanding anything to the contrary in the Agreement: (a) the Borrower shall not request and the Bank shall not make a fixed Rate Advance; and (b) there shall be no Prime Credit Line facilities available under the Agreement.

Alternative Financing

10. If at any time the Bank exercises its right of demand under Section 5 a), Section 5 b) and Section 10 b) of the loan Agreement for any reason other than (i) the occurrence of an Event under Sections 10 a) (iv), (v), (vii), (ix) (if and to the extent any indebtedness specified thereunder is to the Bank or any of the Bank's affiliates), or (xi) of the Agreement; or (ii) in connection with any termination for cause by UBS Financial Services Inc. of the overall customer relationship between UBS Financial Services inc. and the Borrower or its affiliates, then UBS Financial Services inc. shall, or shall cause one or more of its affiliates, to provide as soon as reasonably possible, alternative financing on substantially the same terms and conditions as those under the Agreement and the Bank agrees that the Agreement shall remain in full force and effect until such time as such alternative financing has been established.

Margin Calls; Interest Payments

11. Notwithstanding anything to the contrary in the Agreement, the Bank and the Borrower acknowledge and agree that UBS Financial Services Inc. or any affiliate thereof may, in its sole and absolute discretion, elect to (i) provide additional collateral to the Bank in the form of United States Treasury Securities if and to the extent that the Borrower does not maintain in a Collateral Account, Collateral having an aggregate lending value as specified by the Bank from time to time; and/or (ii) satisfy any and all amounts of accrued and unpaid interest that are otherwise due and payable by the Borrower to the Bank under the Agreement, to the extent that the amount of any Additional Payments under the Agreement are insufficient to satisfy any and all such amounts.

Collateral Account Features

12. Section 8 f) of the Agreement is deleted in its entirety and replaced with the following:

"If a Collateral Account has margin features, the margin features will be removed by UBS Financial Services Inc. or UBS International Inc., as applicable, so long as there is no outstanding margin debit in the Collateral Account. If a Collateral Account has Resource Management Accounts® or Business Services Account BSA® features, such as check writing, cards, bill payment, or electronic funds transfer services, all such features shall be removed by UBS Financial Services Inc. or UBS International Inc., as applicable."

No Credit Line Checks

13. The Bank and the Borrower acknowledge and agree that notwithstanding anything to the contrary in the Agreement, the Credit Line shall not have Credit Line checks.

Headings

14. The headings of each of Section of this Addendum is for descriptive purposes only and shall not be deemed to modify or qualify the terms, conditions, rights or obligations described in such Section.

B. This Addendum may be signed in multiple original counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

[Signature page(s) follows]

IN WITNESS WHEREOF, each of the parties has signed this Addendum pursuant to due and proper authority as of the date set forth below.

December 5, 2008	John L. Bishop, Chief Executive Officer/CEO	/s/ John L. Bishop
Date	Print Name and Title	Signature
December 5, 2008	Andrew D. Miller, Chief Financial Officer/CFO	/s/ Andrew D. Miller
Date	Print Name and Title	Signature

UBS BANK USA

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

UBS FINANCIAL SERVICES INC.

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

Date: _____, 2008

Re: Account Number WI-10523 (the "Account")

ADDENDUM TO CLIENT'S AGREEMENT

The attached "Credit Line Agreement" sets forth certain terms related to the extension of credit by UBS Bank USA (The "Bank") with respect to certain assets held through the above-referenced non-discretionary corporate cash management Account with UBS Financial Services Inc. (the "Firm"), The party signing this Addendum as Client where indicated below (the "Client") understands and agrees that, notwithstanding anything to the contrary contained in either the Credit Line Agreement (including without limitation Section 19 of the Credit Line Agreement) or the existing Corporate Cash Management Account Agreement applicable to the Account, as amended from time to time (the "Account Agreement"), the terms of the Credit Line Agreement supplement, but do not replace, the existing Account Agreement as follows: (i) the terms of the Credit Line Agreement (as amended from time to time, in accordance with its terms) shall govern with respect to any matters, issues or disputes related directly to, or arising directly from, the extension of credit and/or the status of Client as borrower and the Bank as lender pursuant to the Credit Line Agreement (e.g., matters relating to the loan account(s) established at the Bank pursuant to the Credit Line Agreement, and/or the indemnification of the Bank as a lender); and (ii) the terms of the Account Agreement (as amended from time to time, in accordance with its terms) shall govern with respect to all other matters (e.g., matters relating to the Account established at the Firm pursuant to the Account Agreement, the Firm's trading authority and activities and/or the indemnification of the Firm for the services it provides under the Account Agreement)

Without limiting the generality of the foregoing, Client further understands and agrees that:

(A) If applicable, Client may continue to receive certain reporting relative to the Account from its Financial Advisor that are in addition to the official monthly statements that the Firm provides ("Financial Advisor Reports"). As noted in the disclaimer page for those Financial Advisor Reports, the Financial Advisor Reports are for informational purposes only and Client should rely on the Firm's monthly account statements and trade confirmations as the official records relative to the Account. There may be differences between the Financial Advisor Reports and the Firm's monthly statements and trade confirmations. The disclaimer page of the Financial Advisor Reports sets forth important terms and conditions applicable to the Financial Advisor Reports. Client's receipt of Financial Advisor Reports constitutes Client's agreement to, and acceptance of, those terms and conditions.

(B) Solely with respect to disputes arising out of the extension of credit and/or the status of Client as borrower and the Firm as lender pursuant to the Client's Agreement, the choice of law provisions of Paragraph 17 of the Client's Agreement and the arbitration provisions of Paragraph 19 of the Client's Agreement shall govern. With respect to any other disputes relating to the Account, the terms of the Account Agreement regarding choice of law and the arbitration of disputes shall continue to govern.

(C) If Client elected or in the future elects to adopt the Firm's "Addendum Granting Limited Authority to Invest in Money Market Funds For Non-Discretionary Corporate Cash Management Accounts," the Firm may continue to exercise the limited discretion described therein with respect to the Account.

(D) If Client elected or in the future elects to adopt the "Investment Policy Submission Addendum For Non-Discretionary Corporate Cash Management Accounts," the terms set forth therein shall continue to govern with respect to the Account and any investment policy statement associated with the Account.

Acknowledged and agreed this5 th day ofDecember, 2008.

Client's Name: Cepheid, Incorporated

By: /s/ Andrew D. Miller
Name: Andrew D. Miller
Title: Senior Vice President & CFO

UBS

UBS Bank USA

KM

IMPORTANT NOTICE ON INTEREST RATES AND PAYMENTS

Credit Line Account **Account Number**
Cepheid

Collateral Account **Account Number**
Cepheid

This document contains important information regarding the interest rate and interest payments on your Credit Line. You should carefully review this Notice and your Credit Line Application and Agreement including the Addendum, (the "Agreement") and speak to your Financial Advisor regarding any questions or concerns you may have with your Agreement. Defined terms used in this Notice have the respective meanings set forth in the Agreement unless defined in this Notice.

The Agreement provides you with a "no net cost" Credit Line. This means that the interest that you pay on the Credit Line Obligations will not exceed the interest that you receive on the Auction Rate Securities that you have pledged to the Bank as security for the Credit Line and which are held in the Collateral Account. Although you may be able to capitalize interest you will not be charged interest on interest.

The Credit Line statements that you receive from the Bank while the Credit Line is outstanding are for information purposes only. The interest charge(s) on these statements are approximations due to timing and systems limitations. You will receive a final confirmation from the Bank of the interest charged on the Credit Line. This does not change the "no net cost" nature of the Credit Line.

If you have Taxable Student Loan Auction Rate Securities pledged as Collateral you may not receive an interest payment in months in which you are charged interest on the Credit Line. Certain taxable student loan ARS made high interest rate payments to UBSFS investors for several months during the first half of 2008, and then ceased making interest payments in subsequent months. These taxable student loan ARS will not make any further interest payments until a future date determined in accordance with the terms of the Auction Rate Securities. For the purpose of determining loan interest payments for loans against these Taxable Student Loan Auction Rate Securities, the high interest payments will be taken into consideration (and the interest rate annualized). For example, you will be charged (i) for the period from the date of the Addendum through and including January 21, 2009, the applicable coupon rate(s) on the Taxable Student Loan Auction Rate Securities and (ii) from January 22, 2009 and thereafter you will be charged that average annualized rate (e.g. T-bills plus 120 basis points). For each month in which your loan is outstanding, including months for which the annualized interest was paid in a prior month and for which no additional or current payment is being made to you.

Interest on the Credit Line accrues daily and is charged in accordance with the Bank's regular interest billing cycle. The Bank's billing cycle may not be the same as the cycle on which the Auction Rate Securities pay interest.

Please acknowledge your receipt and review of this Notice by signing below.

December 5, 2008	John L. Bishop, Chief Executive Officer/CEO	/s/ John L. Bishop
Date	Print Name and Title	Signature
December 5, 2008	Andrew D. Miller, Chief Financial Officer/CFO	/s/ Andrew D. Miller
Date	Print Name and Title	Signature

Date: December 5, 2008

Exhibit 21.1

List of Subsidiaries

Cepheid SA
Jurisdiction of organization: France

- Cepheid UK (Wholly owned subsidiary of Cepheid SA)
  Jurisdiction of organization: UK

Cepheid AB
Jurisdiction of organization: Sweden

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-8, Nos. 333-41682, 333-65844, 333-91472, 333-106181, 333-117744, 333-122379, 333-131372, 333-134319 and 333-157031) pertaining to the 1997 Stock Option Plan, the 2000 Employee Stock Purchase Plan, the 2000 Non-Employee Directors Stock Option Plan and the 2006 Equity Incentive Plan, and the Registration Statement (Form S-3, No. 333-131520) of Cepheid of our reports dated February 25, 2009 with respect to the consolidated financial statements and schedule of Cepheid and the effectiveness of internal control over financial reporting of Cepheid included in the Annual Report ("Form 10-K") for the year ended December 31, 2008.

San Jose, California
February 25, 2009

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 annual report on Form 10-K 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 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 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: February 26, 2009

/s/ JOHN L. BISHOP
John L. Bishop
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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

I, Andrew D. Miller, certify that:

1. I have reviewed this annual report on Form 10-K 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 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 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: February 26, 2009

/s/ Andrew D. Miller
Andrew D. Miller
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

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 Annual Report of Cepheid (the "Company") on Form 10-K for the year ended December 31, 2008, 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: February 26, 2009

/s/ JOHN L. BISHOP

John L. Bishop
Chief Executive Officer
(Principal 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.

Exhibit 32.2

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

In connection with the Annual Report of Cepheid (the "Company") on Form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew D. Miller, as Principal Financial 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: February 26, 2009

/s/ Andrew D. Miller
Andrew D. Miller
Senior Vice President and Chief Financial Officer
(Principal 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.