WESTCORP /CA/
Form S-3/A
June 19, 2003

Table of Contents

As filed with the Securities and Exchange Commission on June 19, 2003

Registration No. 333-106037

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1
to
Form S-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Westcorp

(Exact name of registrant as specified in its charter)

California	**51-0308535**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

23 Pasteur
Irvine, California 92618-3816
(949) 727-1002
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Ernest S. Rady
Chief Executive Officer
Westcorp
23 Pasteur
Irvine, California 92618-3816
(949) 727-1002
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Andrew E. Katz, Esq.	**Gregg A. Noel, Esq.**
Mitchell Silberberg & Knupp LLP	**Skadden, Arps, Slate, Meagher & Flom LLP**
11377 West Olympic Boulevard	**300 South Grand Avenue**
Los Angeles, California 90064-1683	**Los Angeles, CA 90071**
(310) 312-2000	**(213) 687-5000**

Approximate date of commencement of proposed sale to the public: As promptly as possible following the declaration of effectiveness of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. o

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 19, 2003

3,800,000 Shares

Common Stock

We are selling 3,800,000 shares of our common stock in this offering. We will receive all of the net proceeds from the sale of shares of common stock offered hereby.

To the extent that the underwriters sell more than 3,800,000 shares of common stock, the underwriters have the option to purchase up to an additional 570,000 shares from us at the initial price to public less the underwriting discount.

Our common stock is listed on the New York Stock Exchange under the symbol WES. The last reported sale price of our common stock on June 18, 2003 was $28.98 per share. Ernest Rady, Chairman of the Board of Directors and Chief Executive Officer of Westcorp, is our controlling shareholder. Mr. Rady currently owns, directly or indirectly, and following the completion of this offering will continue to own, in excess of 60% of our outstanding common stock. Following the completion of this offering our total number of shares outstanding will increase approximately 12%, excluding the effect of the shares issuable under the underwriters option to purchase additional shares.

Investing in our common stock involves risks. See Risk Factors beginning on page 7.

The shares of common stock offered hereby are not savings accounts or deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental authority or agency.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Westcorp
Per Share	$	$	$
Total	$	$	$

Delivery of the shares of common stock will be made on or about , 2003.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston **Goldman, Sachs & Co.**
Bear, Stearns & Co. Inc. **JMP Securities**

The date of this prospectus is , 2003.

TABLE OF CONTENTS

Table of Contents

TABLE OF CONTENTS

You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may be used only where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

Table of Contents

FORWARD-LOOKING STATEMENTS

This prospectus includes and incorporates by reference forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies. These statements are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause actual results to differ materially from those expressed in or implied by these forward-looking statements.

These forward-looking statements are identified by their use of terms and phrases such as anticipate, believe, could, estimate, expect, i may, plan, predict, project, will, and similar terms and phrases, including references to assumptions. These statements are contained in sectio entitled Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business and other sections of this prospectus and in the documents incorporated by reference in this prospectus.

The following factors are among those that may cause actual results to differ materially from the forward-looking statements:

- changes in general economic and business conditions;
- interest rate fluctuations, including hedging activities;
- our financial condition and liquidity, as well as future cash flows and earnings;
- competition;
- our level of operating expenses;
- the effect, interpretation, or application of new or existing laws, regulations and court decisions;
- the availability of sources of funding;
- the level of chargeoffs on the automobile contracts that we originate; and
- significant litigation.

If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those expected, estimated or projected.

We do not undertake to update our forward-looking statements or risk factors to reflect future events or circumstances.

INDUSTRY DATA

In this prospectus, we rely on and refer to information regarding the automobile lending industry from market research reports, analyst reports and other publicly available information including, without limitation, reports issued or prepared by CNW Marketing/Research. Although we believe that this information is reliable, we cannot guarantee the accuracy and completeness of this information, and we have not independently verified any of it.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights certain information found in greater detail elsewhere in this prospectus. It does not contain all the information that may be important to you in making a decision to purchase our common stock. We urge you to read the entire prospectus carefully, including Risk Factors and our consolidated financial statements and related notes, before deciding to invest in our common stock. In this prospectus, the company, we, us and our refer to Westcorp and its subsidiaries, except where it is otherwise noted. Unless we indicate otherwise, all informatio in this prospectus assumes the underwriters will not exercise their over-allotment option.

Westcorp

Our Company

We are a diversified financial services holding company that provides automobile lending services through our second-tier subsidiary, WFS Financial Inc, which we refer to as WFS, and retail and commercial banking services through our wholly owned subsidiary, Western Financial Bank, which we refer to as the Bank. The Bank currently owns 84% of the capital stock of WFS. We primarily earn income by originating assets, including automobile contracts, that generate a yield in excess of the cost of the liabilities, including deposits, that fund these assets.

We have grown substantially over the past three years. As of March 31, 2003, we had $13.2 billion in total assets, $9.7 billion in automobile loans and $638 million in common equity, representing a three-year compounded annual growth rate of 36.8%, 19.4% and 18.7%, respectively. For the trailing twelve months ended March 31, 2003 we originated $5.5 billion of automobile contracts and generated $86.4 million of net income and earnings per share of $2.19.

Automobile Lending Operations

We are one of the nation s largest independent automobile finance companies with over 30 years of experience in the automobile finance industry. We believe the automobile finance industry is the second largest consumer finance industry in the United States with over $895 billion of loan and lease originations during 2002. We originate new and pre-owned automobile installment contracts, otherwise known as contracts, through our relationships with approximately 7,900 franchised and independent automobile dealers nationwide. We originated $1.4 billion of contracts during the first quarter in 2003 and owned a portfolio of $9.7 billion contracts at March 31, 2003.

For the three months ended March 31, 2003, approximately 28% of our contract originations were for the purchase of new automobiles and approximately 72% of our contract originations were for the purchase of pre-owned automobiles. Approximately 82% of our contract originations were what we refer to as prime contracts and approximately 18% of our contract originations were what we refer to as non-prime contracts. Our determination of whether a contract is categorized as prime, non-prime or other is based on a number of factors including the borrower s credit history and our expectation of credit loss.

We underwrite contracts through a credit approval process that is supported and controlled by a centralized, automated front-end system. This system incorporates proprietary credit scoring models and industry credit scoring models and tools, which enhance our credit analysts ability to tailor each contract s pricing and structure to maximize risk-adjusted returns. We believe that as a result of our sophisticated credit and underwriting systems, we are able to earn attractive risk-adjusted returns on our contracts. For the trailing twelve months ended March 31, 2003, the average net interest spread on our automobile contract originations was 8.39% and the net interest spread on our managed automobile portfolio was 6.76% while net credit losses averaged 2.86% for the same period.

We structure our business to minimize operating costs while providing high quality service to our dealers. Those aspects of our business that require a local market presence are performed on a decentralized basis in our 41 offices. All other operations are centralized. We fund our purchases of

Table of Contents

contracts, on an interim basis, with deposits raised through our banking operations, which are insured by the Federal Deposit Insurance Corporation, also known as the FDIC, and other borrowings. For long-term financing, we issue automobile contract asset-backed securities. Since 1985, we have sold or securitized over $31 billion of contracts in 59 public offerings of asset-backed securities, making us the fourth largest issuer of such securities in the nation. We have employed a range of securitization structures and our most recent $1.5 billion issuance of asset-backed securities was structured as a senior/subordinated transaction with a weighted average interest rate of 2.13%.

Banking Operations

The primary focus of our banking operations is to generate diverse, low-cost funds to provide the liquidity needed to fund our acquisition of contracts. The Bank has the ability to raise significant amounts of liquidity by attracting both short-term and long-term deposits from the general public, commercial enterprises and institutions by offering a variety of accounts and rates. These funds are generated through the Bank s retail and commercial banking divisions. The Bank also may raise funds by obtaining advances from the Federal Home Loan Bank, also known as the FHLB, selling securities under agreements to repurchase and utilizing other borrowings. The Bank s retail banking division serves the needs of individuals and small businesses by offering a broad range of products through 18 retail branches located throughout Southern California. The Bank s commercial banking division focuses on medium-sized businesses in Southern California. At March 31, 2003, the total deposits gathered by both the retail and commercial banking divisions were $2.1 billion. Approximately 86% of these accounts were demand deposits, money market accounts and certificate of deposit accounts under $100,000 in principal, which we believe represent a stable and attractive source of funding.

The Bank also invests deposits generated by its retail and commercial banking divisions in mortgage-backed securities. Our investment in mortgage-backed securities, together with the cash balances that we maintain, create a significant liquidity portfolio that provides us with additional funding security.

Our Business Strategy

Our business objective is to maximize long-term profitability by efficiently purchasing and servicing prime and non-prime credit quality automobile contracts that generate strong and consistent risk-adjusted returns. We achieve this objective by employing our business strategy, which includes the following key elements:

produce consistent growth through our strong dealer relationships;

price automobile contracts to maximize risk-adjusted returns by using advanced technology and experienced underwriters;

create operating efficiencies through technology and best practices;

generate low cost liquidity through positive operating cash flows and diverse funding sources; and

record high quality earnings and maintain a conservative, well-capitalized balance sheet.

Our Address

Our principal executive office and mailing address is 23 Pasteur, Irvine, California 92618-3816, and our telephone number is (949) 727-1002. Our Web site address is *http://www.westcorpinc.com*. The information contained in our Web site does not constitute part of this prospectus.

Table of Contents

The Offering

Issuer	Westcorp
Common stock offered	3,800,000 shares
Underwriters option to purchase additional shares	570,000 shares
Common stock outstanding after this offering and concurrent placements(1)	43,834,709 shares
Use of proceeds	Substantially all of the proceeds will be used to purchase automobile contracts from WFS or will be contributed or invested in the Bank or WFS. The balance of the proceeds, if any, will be used by us for general corporate purposes.
New York Stock Exchange symbol	WES

(1) The number of total shares outstanding after this offering is based on the number of shares outstanding as of March 31, 2003, and includes:

700,000 shares of common stock being purchased by Mr. Rady and his affiliates; and

130,000 shares of common stock being purchased by our Employee Stock Ownership Plan and Salary Savings Plan.

The price of the shares being purchased by Mr. Rady and his affiliates and our ESOP will be the price to public as set forth on the cover page to this prospectus. Both placements will close concurrently with this offering. In order to fund the ESOP s purchase, Westcorp intends to make a cash contribution to the ESOP in an amount equal to the aggregate purchase price.

The number of total shares outstanding after this offering excludes:

606,420 shares of common stock issuable upon exercise of outstanding options under our stock incentive plan, at a weighted average share price of $14.85 per share;

2,173,875 shares available for future issuance under our stock incentive plan; and

570,000 shares issuable under the underwriters over-allotment option.

Table of Contents

Summary Financial Data

Our summary balance sheet and operating data for the years ended December 31, 2002, 2001 and 2000 have been derived from our audited consolidated financial statements. Certain amounts from the prior year consolidated financial statements have been reclassified to conform to the 2003 presentation. The balance sheet data at March 31, 2003 and 2002 and the operating data for the three months ended March 31, 2003 and 2002 have been derived from our unaudited consolidated financial statements. In the opinion of management, the unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all normal recurring adjustments necessary for the fair presentation of financial position and results of operations for those periods.

The summary financial data set forth below should be read in conjunction with our consolidated financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included or incorporated by reference elsewhere herein including the impact of changing the structure of our securitizations from sale transactions to secured financings. The financial data is qualified in its entirety by the more detailed financial information contained elsewhere or incorporated by reference herein. Information regarding our compliance with applicable regulatory capital requirements is included in this prospectus under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity Capital Requirements.

	For the Three Months Ended March 31,		For the Year Ended December 31,		
	2003	2002	2002	2001	2000
	(Dollars in thousands, except per share amounts)				
Consolidated Summary of Operations:					
Interest income	$ 307,502	$ 262,196	$ 1,142,940	$ 962,627	$ 583,821
Interest expense	141,212	120,070	530,916	491,944	313,872
Net interest income	166,290	142,126	612,024	470,683	269,949
Provision for credit losses	79,884	65,698	306,233	196,977	82,133
Net interest income after provision for credit losses	86,406	76,428	305,791	273,706	187,816
Noninterest income	27,753	17,159	90,430	78,899	177,884
Noninterest expense	68,439	60,859	251,306	244,871	220,973
Income before income tax	45,720	32,728	144,915	107,734	144,727
Income tax	18,226	12,964	52,044	41,675	58,132
Income before minority interest	27,494	19,764	92,871	66,059	86,595
Minority interest in earnings of subsidiaries	3,945	2,911	13,153	10,369	11,852
Net income	$ 23,549	$ 16,853	$ 79,718	$ 55,690	$ 74,743
Weighted average number of shares and common share equivalents diluted	39,452,915	36,980,861	38,922,611	34,485,127	29,525,677
Earnings per common share	$ 0.60	$ 0.46	$ 2.05	$ 1.61	$ 2.53
Dividends per common share	$ 0.12	$ 0.11	$ 0.47	$ 0.44	$ 0.30
Dividend payout ratio	20.1%	24.1%	22.9%	27.3%	11.9%

Table of Contents

	March 31, 2003		December 31,		
	Actual	As Adjusted(1)	2002	2001	2000
			(Dollars in thousands)		
Consolidated Summary of Financial Condition:					
Assets:					
Cash	$ 46,999	$ 171,508	$ 25,211	$ 68,607	$ 61,543
Loans:					
Consumer(2)	9,817,459	9,817,459	9,063,755	7,092,959	4,309,317
Mortgage(3)	269,368	269,368	282,930	373,455	507,431
Commercial	93,339	93,339	97,216	85,312	107,586
Mortgage-backed securities	2,790,310	2,790,310	2,649,657	2,092,225	2,230,448
Investments and time deposits	110,502	110,502	115,771	110,667	102,311
Other assets	41,484	41,484	176,336	249,172	549,274
Total assets	$13,169,461	$13,293,970	$12,410,876	$10,072,397	$7,867,910
Liabilities:					
Deposits	$ 2,084,725	$ 2,084,725	$ 1,974,984	$ 2,329,326	$2,478,487
Notes payable on automobile secured financings	9,265,725	9,265,725	8,422,915	5,886,227	3,473,377
FHLB advances and other borrowings	515,265	515,265	618,766	723,675	616,193
Amounts held on behalf of trustee			177,642	280,496	494,858
Subordinated debentures	397,406	397,406	400,561	147,714	189,962
Other liabilities	162,749	158,982	101,145	85,994	71,221
Total liabilities	12,425,870	12,422,103	11,696,013	9,453,432	7,324,098
Minority interest in equity of subsidiaries	105,798	105,798	101,666	78,261	56,644
Shareholders equity	637,793	766,069	613,197	540,704	487,168
Total liabilities and shareholders equity	$13,169,461	$13,293,970	$12,410,876	$10,072,397	$7,867,910

	At or For the Three Months Ended March 31,		At or For the Year Ended December 31,		
	2003	2002	2002	2001	2000
			(Dollars in thousands)		
Operating Statistics Automobile Only:					
Automobile contract originations	$1,352,053	$1,265,526	$5,415,734	$4,863,279	$4,219,227
Percent of prime automobile contracts originated	82.4%	79.4%	80.3%	75.6%	68.8%
Automobile contracts managed at end of period	$9,650,229	$8,405,634	$9,389,974	$8,152,882	$6,818,182
Weighted average coupon on originated automobile contacts	10.6%	11.7%	11.4%	12.7%	14.0%

Operating expenses as a percentage of average managed automobile contracts	2.5%	2.5%	2.4%	2.7%	3.1%
Automobile contracts delinquent 60 days or greater	0.7%	0.7%	1.0%	1.1%	0.9%
Net chargeoffs as a percent of the average outstanding managed automobile contracts	2.9%	2.8%	2.8%	2.3%	1.9%

Table of Contents

	For the Three Months Ended March 31,		For the Year Ended December 31,		
	2003	2002	2002	2001	2000
			(Dollars in thousands)		
Other Selected Financial Data:					
Average assets	$12,932,117	$10,433,517	$11,572,027	$9,280,377	$6,242,668
Return on average assets	0.73%	0.65%	0.69%	0.60%	1.20%
Average shareholders equity(4)	$ 722,610	$ 614,157	$ 654,109	$ 570,298	$ 450,323
Return on average shareholders equity(4)	13.04%	10.98%	12.19%	9.77%	16.60%
Equity to assets ratio(4)	5.57%	5.32%	5.76%	5.97%	6.38%
Book value per share(4)	$ 18.71	$ 16.98	$ 18.23	$ 16.80	$ 15.72
Originations:					
Consumer loans(2)	$ 1,353,928	$ 1,266,189	$ 5,419,296	$4,869,970	$4,232,115
Mortgage loans(3)	4,314	9,139	23,950	23,001	33,124
Commercial loans(3)	96,684	61,268	354,439	291,944	266,342
Total originations	$ 1,454,926	$ 1,336,596	$ 5,797,685	$5,184,915	$4,531,581
Interest rate spread	5.02%	5.57%	5.29%	4.99%	4.37%

(1) As adjusted to reflect the offering and the placement of shares with Mr. Rady and his affiliates and our ESOP.

(2) Net of unearned discounts.

(3) Net of undisbursed loan proceeds.

(4) Accumulated other comprehensive income excluded from shareholders equity.

Table of Contents

RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the risks described below and the other information in this prospectus and the information incorporated by reference before deciding to invest in our common stock. Our business, operating results and financial condition could be adversely affected by any of the following specific risks. The trading price of our common stock could decline due to any of these risks and other industry risks, and you could lose all or part of your investment. In addition to the risks described below, we may encounter risks that are not currently known to us or that we currently deem immaterial, which may also impair our business operations and your investment in our common stock.

Risks Related to the Offering

We have broad discretion in how we use the proceeds from this offering and may use them in ways with which you disagree.

We intend to use substantially all of the proceeds from this offering to finance our growth in automobile contracts and to use the balance of the proceeds, if any, for general corporate purposes. However, our management will have significant flexibility in applying the net proceeds of this offering. The failure of management to use such funds effectively could have a material adverse effect on our financial position, liquidity and results of operations by reducing or eliminating our net income from operations. See Use of Proceeds.

Risks Related to Factors Outside Our Control

Adverse economic conditions may impact our profitability.

Delinquencies, defaults, repossessions and credit losses generally increase during periods of economic slowdown, recession or higher unemployment. These periods also may be accompanied by decreased consumer demand for automobiles and declining values of automobiles securing outstanding contracts, which weakens collateral coverage and increases the amount of loss in the event of default. Significant increases in the inventory of pre-owned automobiles during periods of economic recession also may depress the prices at which repossessed automobiles may be sold or delay the timing of these sales. Because a portion of our borrowers are considered non-prime borrowers, the actual rates of delinquencies, defaults, repossessions and credit losses on these contracts are higher than those experienced in the general automobile finance industry for borrowers considered to be prime borrowers and could be more dramatically affected by a general economic downturn. In addition, during an economic slowdown or recession, our servicing costs may increase without a corresponding increase in our servicing fee income. While we seek to manage the higher risk inherent in non-prime contracts through the underwriting criteria and collection methods we employ, we cannot assure you that these criteria or methods will afford adequate protection against these risks. Any sustained period of increased delinquencies, defaults, repossessions, credit losses or servicing costs could adversely affect our financial position, liquidity and results of operations and our ability to enter into future securitizations.

Interest rate fluctuations may impact our profitability.

Our profitability may be directly affected by the level of and fluctuations in interest rates, which affects the gross interest rate spread we earn on our contracts. As interest rates change, our gross interest rate spread on new originations may increase or decrease depending upon the interest rate environment. In addition, the rates charged on the contracts originated or purchased from dealers are limited by statutory maximums, restricting our opportunity to pass on increased interest costs. We believe that our profitability and liquidity could be adversely affected during any period of changing interest rates, possibly to a material degree. We monitor the interest rate environment and employ our hedging strategies designed to mitigate the impact of changes in interest rates. We cannot assure you that our hedging strategies will mitigate the impact of changes in interest rates.

Table of Contents

Prepayment of contracts may impact our profitability.

Our contracts may be repaid by borrowers at any time at their option. Early repayment of contracts will limit the amount of earnings we would have otherwise received under those contracts.

Wholesale auction values may impact our profitability.

We sell repossessed automobiles at wholesale auction markets located throughout the United States. Auction proceeds from the sale of repossessed vehicles and other recoveries usually do not cover the outstanding balance of the contracts, and the resulting deficiencies are charged off. Decreased auction proceeds resulting from the depressed prices at which pre-owned automobiles may be sold during periods of economic slowdown or recession will result in higher credit losses for us. Furthermore, depressed wholesale prices for pre-owned automobiles may result from significant liquidations of rental or fleet inventories and from increased volume of trade-ins due to promotional financing programs offered by new vehicle manufacturers. There can be no assurance that our recovery rates will stabilize or improve in the future.

Risks Related to Us

The ownership of our common stock is concentrated, which may result in conflicts of interest and actions that are not in the best interests of other stockholders of the Company.

Ernest S. Rady is the founder, Chairman of the Board of Directors and Chief Executive Officer of Westcorp. Mr. Rady is also the Chairman of the Board of Directors and Chief Executive Officer of the Bank and the Chairman of the Board of Directors of WFS. Immediately after the completion of this offering and the placement of shares with Mr. Rady and his affiliates, Mr. Rady will be the beneficial owner of approximately 62.8% of the outstanding shares of common stock of Westcorp and will be able to exercise significant control over our company. The Westcorp common stock ownership of Mr. Rady enables him to elect all of Westcorp s directors and effectively control the vote on all matters submitted to a vote of Westcorp, including mergers, sales of all or substantially all of our assets, going private transactions, conversions and other corporate restructurings or reorganizations. Because of the significant block of Westcorp common stock controlled by Mr. Rady, decisions may be made that, while in the best interest of Mr. Rady, may not be in the best interest of other stockholders.

We are a holding company with no operations of our own.

The results of our operations and our financial condition are dependent upon the business activities of our two principal consolidated subsidiaries, the Bank and WFS. In addition, our ability to fund our operations and pay dividends on our common stock is dependent upon the earnings from the businesses conducted by our subsidiaries. Our subsidiaries are separate and distinct legal entities and have no obligation to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. Any distribution of funds to us from our subsidiaries is subject to statutory, regulatory or contractual restrictions, subsidiaries earnings and various other business considerations.

A significant portion of our cash flow comes from our second-tier subsidiary WFS. WFS is an 84% owned subsidiary of the Bank. The Bank is subject to limitations upon its ability to pay dividends to us by the terms of the subordinated debentures it has issued and regulations of the Office of Thrift Supervision, also known as the OTS. WFS does not have any obligation to pay amounts to the Bank except pursuant to the senior unsecured intercompany promissory notes issued by WFS to the Bank by which the Bank funds WFS operations. In addition, the ability of WFS to repay its obligations to the Bank may be impaired by deficiencies in WFS automobile finance operations. Furthermore, any amounts owed to creditors of WFS, which may have priority over any obligations WFS has to the Bank under the senior promissory notes, may impair the Bank s ability to have funds available for dividend to us.

Table of Contents

We have substantial debt that could limit our ability to declare and pay dividends and reduce the effectiveness of our operations.

Through our subsidiaries, we have substantial debt and debt service requirements. As of March 31, 2003, our total debt, as a percentage of total capitalization, was 95%. This substantial level of debt may have important consequences, including:

limiting our ability to borrow additional amounts for origination of automobile contracts, capital expenditures and debt service requirements;

limiting our ability to use operating cash flows in other areas of our business;

increasing our vulnerability to general adverse economic conditions; and

limiting our ability to capitalize on business opportunities and to react to competitive pressures.

We cannot assure you that we will generate sufficient cash flows from operations, or that we will be able to obtain sufficient funding for our operations or to declare and pay dividends on our common stock. In addition, any future indebtedness would further increase our debt leverage and the associated risks.

The availability of our financing sources may depend on factors outside of our control.

We depend on a significant amount of financing to operate our business. Our business strategy utilizes diverse funding sources to fund our operations. These sources include raising both short-term and long-term deposits from the general public, commercial enterprises and institutions by offering a variety of accounts and rates through our retail and commercial banking operations. In addition, we raise funds through the collection of principal and interest from loans, automobile asset-backed securities, commercial paper, advances from the FHLB, repurchase agreements, subordinated debentures and equity offerings. The sources used vary depending on such factors as rates paid, maturities and the impact on capital.

The availability of these financing sources may depend on factors outside of our control, including regulatory issues such as the capital requirements of the Bank, debt ratings, competition, the market for automobile asset-backed securities and our ability to receive financing from other financial institutions. If we are unable to raise the funds we require at reasonable rates, we will either have to curtail our loan origination activities or incur the effects of increased costs of operation. Reducing our loan origination activities may adversely affect our ability to remain a preferred source of financing for the dealers from whom we purchase automobile contracts. An increase in our costs of operations will have an adverse effect on our financial position, liquidity and results of operations by increasing our interest expense and reducing our net interest income.

We may not be able to generate sufficient operating cash flows to run our automobile finance operations.

Our automobile finance operations require substantial operating cash flows. Operating cash requirements include premiums paid to dealers for acquisition of automobile contracts, expenses incurred in connection with the securitization of automobile contracts, capital expenditures for new technologies and ongoing operating costs. Our primary source of operating cash comes from the excess cash flows received from securitizations and contracts held on the balance sheet. The timing and amount of excess cash flows from contracts varies based on a number of factors, including:

the rates and amounts of loan delinquencies, defaults and net credit losses;

how quickly and at what price repossessed vehicles can be resold;

Table of Contents

the ages of the contracts in the portfolio;

levels of voluntary prepayments; and

the terms of our securitizations, which include performance based triggers requiring higher levels of credit enhancements to the extent credit losses or delinquencies exceed certain thresholds. We have exceeded performance thresholds in the past and may do so again in the future.

Any adverse change in these factors could reduce or eliminate excess cash flows to us. Although we currently have positive operating cash flows, we cannot assure you that we will continue to generate positive cash flows in the future, which could have a material adverse effect on our financial position, liquidity and results of operations.

Changes in our securitization program could adversely affect our liquidity and earnings.

Our business depends on our ability to aggregate and sell automobile contracts in the form of asset-backed securities. These sales generate cash proceeds that allow us to repay amounts borrowed and to purchase additional automobile contracts. Changes in our asset-backed securities program could materially adversely affect our earnings or ability to purchase and resell automobile contracts on a timely basis. Such changes could include:

delay in the completion of a planned securitization;

negative market perception of us; or

failure of the automobile contracts we intend to sell to conform to insurance company and rating agency requirements.

If we are unable to effectively securitize our automobile contracts, we may have to reduce or even curtail our automobile contract purchasing activities, which would have a material adverse effect on our financial position, liquidity and results of operations.

We utilize credit enhancements to maintain favorable interest rates and cash requirements for our automobile asset-backed securitizations.

To date, all but three of our outstanding securitizations have used credit enhancement in the form of financial guaranty insurance policies issued by Financial Security Assurance Inc., also known as FSA, with the others using a senior/ subordinated structure to credit enhance the securitization. An inability to credit enhance our securitizations using either approach could have a material adverse effect on our financial position, liquidity and results of operations by increasing the total costs of our securitization activities and thereby reducing our net income or resulting in our failure to meet regulatory limitations.

If we lose access to the cash produced by securitized automobile contracts, we may not be able to obtain comparable financing.

We have access to the cash flows of the automobile contracts sold in each outstanding securitization credit enhanced by FSA (including the cash held in spread accounts associated with each securitization) through a series of agreements into which the Bank, WFS, WFS Financial Auto Loans 2, Inc., a special purpose subsidiary of WFS also known as WFAL2, and other parties have entered. We are permitted to use that cash as we determine, including in the ordinary business activities of originating automobile contracts.

In each securitization credit enhanced by FSA, the governing agreements require that all cash flows of the relevant trust and the associated spread account be invested in an eligible investment. In connection with each securitization, the relevant trust has entered into a reinvestment contract, also known as a trust reinvestment contract, which is or qualifies as an eligible investment.

Table of Contents

A limited portion of the funds invested in trust reinvestment contracts may be used by WFAL2 and the balance may be used by the Bank. The Bank makes its portion of the invested funds available to WFS through another reinvestment contract, also known as the WFS reinvestment contract. Under the WFS reinvestment contract, WFS receives access to all cash available to the Bank under each trust reinvestment contract. WFS is obligated to repay the Bank as needed by the Bank to meet its obligations under the individual trust reinvestment contracts. The portion of the cash available to WFAL2 under the individual trust reinvestment contracts is used to purchase automobile contracts from WFS according to the terms of sale and servicing agreements entered into with WFS. If the trust reinvestment contracts were no longer deemed an eligible investment, which determination would be made by the rating agencies or FSA, the Bank and WFAL2 would no longer have the ability to use this cash in the ordinary course of business and would need to obtain alternative financing, which may only be available on less attractive terms. If the Bank and WFAL2 were unable to obtain alternative financing, WFS may have to curtail its automobile contract purchasing activities, which would have a material adverse effect on our financial position, liquidity and results of operations.

A loss of contractual servicing rights could have a material effect on our business.

As servicer of all our securitized automobile contracts, WFS is entitled to receive contractual servicing fees. Contractual servicing fees are earned at a rate of 1.25% per annum on the outstanding balance of automobile contracts securitized. FSA, as insurer with respect to those currently outstanding securitizations as to which it has provided credit enhancement, can terminate WFS right to act as servicer for those transactions upon the occurrence of events defined in the sale and servicing agreements for securitized automobile contracts, such as our bankruptcy or material breach of warranties or covenants contained in the sale and servicing agreement. Any loss of such servicing rights could have a material adverse effect on our financial position, liquidity and results of operations by reducing our net income upon the elimination of that contractual servicing income.

We expect our operating results to continue to fluctuate, which may adversely impact our business.

Our results of operations have fluctuated in the past and are expected to fluctuate in the future. Factors that could affect our quarterly earnings include:

variations in the volume of automobile contracts originated, which historically tend to be lower in the first and fourth quarters of the year;

interest rate spreads;

the effectiveness of our hedging strategies;

credit losses, which historically tend to be higher in the first and fourth quarters of the year; and

operating costs.

Competition in the industry may adversely impact our ability to maintain our business at the current level of operations.

The automobile finance business is highly competitive. We compete with captive automobile finance companies owned by major automobile manufacturers, banks, credit unions, savings associations and independent consumer finance companies. Many of these competitors have greater financial and marketing resources than we have. Additionally, from time to time the captive finance companies provide financing on terms significantly more favorable to automobile purchasers than we can offer. For example, captive finance companies can offer special low or no interest loan programs as incentives to purchasers of selected models of automobiles manufactured by their respective parent manufacturers.

Many of our competitors also have longstanding relationships with automobile dealers and may offer dealers or their customers other forms of financing, including dealer floor plan financing and leasing, which we currently do not provide. Providers of automobile financing have traditionally competed on the basis of

Table of Contents

interest rates charged, the quality of credit accepted, the flexibility of loan terms offered and the quality of service provided to dealers and customers. In seeking to establish WFS as one of the principal financing sources of the dealers we serve, we compete predominately on the basis of our high level of dealer service and strong dealer relationships and by offering flexible contract terms to automobile purchasers.

Competition in the retail banking business comes primarily from commercial banks, credit unions, savings and loan associations, mutual funds and issuers of securities. Many of the nation s largest savings and loan associations and other depository institutions have locations in Southern California. We compete for deposits primarily on the basis of interest rates paid and the quality of service provided to our customers.

Our business is subject to litigation.

We are subject to various putative class actions alleging claims under the Equal Credit Opportunity Act or similar state laws, including under the California Business and Professions Code and the California Unruh Civil Rights Act. Although we are vigorously defending these actions, we cannot assure you that the outcome of these proceedings will not have a material adverse effect upon our financial condition, results of operations and cash flows. See Business Legal Proceedings.

Risks Related to Regulatory Factors

Regulatory requirements may restrict our ability to do business.

The Bank is subject to inspection and regulation by the OTS pursuant to the Home Owners Loan Act, as amended, also known as HOLA. The OTS is the primary federal banking agency responsible for its supervision and regulation. HOLA limits the amount of our consumer loans, commercial loans and investment in service corporations. The Bank is precluded from holding consumer loans, including automobile contracts, on its consolidated balance sheet, in an aggregate principal balance in excess of 30% of its total consolidated assets. The limitation is increased to 35% of consolidated assets if all of the consumer loans in excess of the 30% limit are obtained by the Bank and its operating subsidiaries directly from consumers. The Bank is precluded from holding commercial loans, including loans to our service corporations, on its consolidated balance sheet, in an aggregate principal balance in excess of 10% of its total consolidated assets. Commercial loans secured by real estate and small business loans with $2.0 million or less in outstanding principal are not included in the calculation of the percentage of commercial loans. Interests in consumer loans held by the Bank s service corporations are not included in the limits on such assets described above. The Bank is precluded from investing more than 2.0% of its consolidated assets in service corporations, although it may invest an additional 1% in service corporations devoted to community service activities as specified in the regulations. Retained earnings or losses from the operations of our service corporations are not included in the calculation of our investment in service corporations. In addition, other regulatory actions taken by the OTS could have a negative impact on the price of our common stock.

Our securitization activities are structured to enable the Bank to remove securitized automobile contracts from the HOLA consumer loan limitation calculation. Changes in the OTS s interpretation of HOLA as it affects our securitization activities could cause us to change the manner in which we securitize automobile contracts or to limit our acquisition of such contracts, thereby negatively impacting the price of our common stock. Furthermore, if we are unable to continue to securitize the automobile contracts we purchase, this regulatory limitation may force us to limit our acquisition of new automobile contracts, thereby adversely affecting our ability to remain a preferred source of financing for the dealers from whom we purchase automobile contracts, or cause us to fail the regulatory limitations. Any such limitations may also have a material adverse effect on our financial position, liquidity and results of operations.

The OTS has the power to enforce HOLA and its regulations by a variety of actions ranging from a memorandum of understanding to cease and desist proceedings under the Federal Deposit Insurance Act. As such, the OTS has broad powers to, among other things, require us to change our business practices,

Table of Contents

hold additional capital and change management. Such action could have a material adverse impact on our business and may impact our securities prices, including our common stock, and access to the capital markets.

OTS guidance regarding subprime lending may affect the Bank s capital requirements.

The OTS, along with other federal banking regulatory agencies, has adopted guidance pertaining to subprime lending programs. Pursuant to the guidance, lending programs which provide credit to borrowers whose credit histories reflect specified negative characteristics, such as recent bankruptcies or payment delinquencies, are deemed to be subprime lending programs for regulatory purposes. Many of the contracts that we originate possess one or more of the factors identified in the guidance as indicative of a subprime loan for this purpose. Pursuant to the guidance, examiners may require that an institution with a lending program deemed to be subprime hold additional capital that ranges from one and one-half to three times the normal capital required for similar loans made to borrowers who are not deemed to be subprime borrowers.

Because many of the automobile contracts we originate possess one or more of the factors identified in the guidance as indicative of a subprime loan, we maintain our capital levels higher than would otherwise be required by regulations. Maintaining higher capital levels may slow our growth, require us to raise additional capital or sell assets, all of which could negatively impact our earnings. We cannot predict to what extent the Bank may be required to hold additional capital with respect to those automobile contracts we hold as to which the borrowers are deemed by the OTS to be subprime borrowers.

Other regulatory requirements may affect our ability to do business.

Our operations are subject to regulation, supervision and licensing under various federal, state and local statutes, ordinances and regulations.

In most states in which we operate, a consumer credit regulatory agency regulates and enforces laws relating to consumer lenders and sales finance agencies such as WFS. These rules and regulations generally provide for licensing of sales finance agencies, limitations on the amount, duration and charges, including interest rates, for various categories of loans, requirements as to the form and content of finance contracts and other documentation, and restrictions on collection practices and creditors rights. So long as WFS is an operating subsidiary of the Bank, licensing and certain other of these requirements are not applicable to WFS due to federal preemption.

We are also subject to extensive federal regulation, including the Truth in Lending Act, the Equal Credit Opportunity Act and the Fair Credit Reporting Act. These laws require us to provide certain disclosures to prospective borrowers and protect against discriminatory lending practices and unfair credit practices. The principal disclosures required under the Truth in Lending Act include the terms of repayment, the total finance charge and the annual percentage rate charged on each loan. The Equal Credit Opportunity Act prohibits creditors from discriminating against loan applicants on the basis of race, color, sex, age or marital status. Pursuant to Regulation B promulgated under the Equal Credit Opportunity Act, creditors are required to make certain disclosures regarding consumer rights and advise consumers whose credit applications are not approved of the reasons for the rejection. In addition, the credit scoring system we use must comply with the requirements for such a system as set forth in the Equal Credit Opportunity Act and Regulation B. The Fair Credit Reporting Act requires us to provide certain information to consumers whose credit applications are not approved on the basis of a report obtained from a consumer reporting agency. Additionally, we are subject to the Gramm-Leach-Bliley Act, which requires us to maintain privacy with respect to certain consumer data in our possession and to periodically communicate with consumers on privacy matters. We are also subject to the Soldiers and Sailors Civil Relief Act, and similar state laws, which requires us to reduce the interest rate charged on each loan to customers who have subsequently joined the military.

The dealers that originate automobile contracts we purchase also must comply with both state and federal credit and trade practice statutes and regulations. Failure of the dealers to comply with these

Table of Contents

statutes and regulations could result in consumers having rights of rescission and other remedies that could have an adverse effect on us.

We believe that we maintain all material licenses and permits required for our current operations and are in substantial compliance with all applicable local, state and federal regulations. There can be no assurance, however, that we will be able to maintain all requisite licenses and permits, and the failure to satisfy those and other regulatory requirements could have a material adverse effect on our operations. Further, the adoption of additional, or the revision of existing, rules and regulations could have a material adverse effect on our business.

We are subject to routine periodic examinations by the OTS on a variety of financial and regulatory matters. The Bank is currently under review by the OTS as part of its annual safety and soundness examination.

Table of Contents

USE OF PROCEEDS

We expect to receive approximately $104.2 million in net proceeds, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, from the sale of shares of our common stock in this offering based on the sale of 3,800,000 shares at an assumed public offering price of $28.98 per share, which was the closing price of our common stock on the New York Stock Exchange on June 18, 2003. If the underwriters exercise in full their option to purchase an additional 570,000 shares of our common stock, we expect our additional net proceeds to be approximately $15.7 million. In addition, we expect to receive an additional $20.3 million in net proceeds from the concurrent placement of our common stock to Mr. Rady and his affiliates (assuming a purchase price of $28.98 per share, which was the closing price of our common stock on the NYSE on June 18, 2003). Substantially all of the proceeds from this offering and the concurrent placements of common stock will be used to purchase automobile contracts from WFS or will be contributed or invested in the Bank or WFS. The balance of the proceeds, if any, will be used by us for general corporate purposes.

PRICE RANGE OF COMMON STOCK AND DIVIDEND INFORMATION

The common stock of our company has been publicly traded since August 8, 1986 on the NYSE under the symbol WES. The following table sets forth the high and low sale prices by quarter in 2003, 2002 and 2001, as reported by the NYSE, and the dividends declared on the common stock during those quarters.

	Westcorp Common Stock		
	High	Low	Cash Dividends Declared
Calendar 2001			
First Quarter	$18.66	$14.68	$0.11
Second Quarter	23.70	16.45	0.11
Third Quarter	23.41	16.00	0.11
Fourth Quarter	19.45	16.05	0.11
Calendar 2002			
First Quarter	22.55	15.70	0.12
Second Quarter	31.95	22.50	0.12
Third Quarter	31.41	18.10	0.12
Fourth Quarter	21.63	16.92	0.12
Calendar 2003			
First Quarter	23.25	18.30	0.13
Second Quarter (through June 18, 2003)	30.14	18.55	0.13

The closing price of our common stock on the NYSE on June 18, 2003 was $28.98 per share. There were approximately 1,912 stockholders of our common stock at March 11, 2003. The number of stockholders was determined by the number of record holders, including the number of individual participants, in security position listings.

There are no contractual restrictions on the payment of dividends by Westcorp. However, the Bank is restricted by its outstanding subordinated debentures as to the amount of funds that can be transferred to us in the form of dividends. On March 31, 2003, under the most restrictive of these terms, the maximum dividend that the Bank could have paid was $104 million.

Any future determination as to the payment of dividends on our common stock will be restricted by these limitations, will be at the discretion of our board of directors and will depend on our results of operations, financial condition, capital requirements and other factors deemed relevant by the board of directors, including the General Corporation Law of the State of California, which provides that dividends are only payable out of surplus or current net profits.

Table of Contents

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2003 on an actual basis and on an as adjusted basis to reflect (a) the sale of the 3,800,000 shares of common stock offered hereby, (b) the sale of 700,000 shares of common stock to Mr. Rady and his affiliates and (c) the sale of 130,000 shares of common stock to our Employee Stock Ownership Plan and Salary Savings Plan, in each case, at an assumed public offering price of $28.98 per share, which was the closing price of our common stock on the NYSE on June 18, 2003, and application of the net proceeds therefrom as described under Use of Proceeds.

	March 31, 2003	
	Actual	As Adjusted
	(Dollars in thousands)	
Cash and cash equivalents	$ 93,202	$ 217,711
Deposits	$ 2,084,725	$ 2,084,725
Notes payable(1)	9,780,990	9,780,990
Total deposits and notes payable	11,865,715	11,865,715
Subordinated debentures	397,406	397,406
Total debt	12,263,121	12,263,121
Shareholders equity:		
Common stock, par value $1.00 per share; authorized 65,000,000 shares; issued and outstanding 39,204,709 shares, actual; issued and outstanding 43,834,709 shares, as adjusted	39,205	43,835
Paid-in capital	350,122	473,768
Retained earnings	344,374	344,374
Accumulated other comprehensive loss, net of tax	(95,908)	(95,908)
Total shareholders equity	637,793	766,069
Total capitalization	$ 12,900,914	$ 13,029,190

(1) Includes secured financings of automobile contracts, FHLB advances and other borrowings.

Table of Contents

SELECTED FINANCIAL DATA

Our selected balance sheet and operating data for the years ended December 31, 2002, 2001 and 2000 have been derived from our audited consolidated financial statements. Certain amounts from the prior year consolidated financial statements have been reclassified to conform to the 2003 presentation. The selected balance sheet data at March 31, 2003 and 2002 and the operating data for the three months ended March 31, 2003 and 2002 have been derived from our unaudited consolidated financial statements. In the opinion of management, the unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all normal recurring adjustments necessary for the fair presentation of financial position and results of operations for those periods.

The selected financial data set forth below should be read in conjunction with our consolidated financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included or incorporated by reference elsewhere herein including the impact of changing the structure of our securitizations from sale transactions to secured financings. The financial data is qualified in its entirety by the more detailed financial information contained elsewhere or incorporated by reference herein. Information regarding our compliance with applicable regulatory capital requirements is included in this prospectus under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity Capital Requirements.

	For the Three Months Ended March 31,		For the Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
	(Dollars in thousands, except per share amounts)						
Consolidated Summary of Operations:							
Interest income	$ 307,502	$ 262,196	$ 1,142,940	$ 962,627	$ 583,821	$ 297,616	$ 272,166
Interest expense	141,212	120,070	530,916	491,944	313,872	152,788	161,713
Net interest income	166,290	142,126	612,024	470,683	269,949	144,828	110,453
Provision for credit losses	79,884	65,698	306,233	196,977	82,133	38,400	18,960
Net interest income after provision for credit losses	86,406	76,428	305,791	273,706	187,816	106,428	91,493
Noninterest income	27,753	17,159	90,430	78,899	177,884	212,138	128,654
Noninterest expense(1)	68,439	60,859	251,306	244,871	220,973	217,958	248,390
Income (loss) before income tax (benefit)	45,720	32,728	144,915	107,734	144,727	100,608	(28,243)
Income tax (benefit)	18,226	12,964	52,044	41,675	58,132	41,460	(11,330)
Income (loss) before minority interest	27,494	19,764	92,871	66,059	86,595	59,148	(16,913)
Minority interest in earnings (loss) of subsidiaries	3,945	2,911	13,153	10,369	11,852	6,522	(2,216)
Net income (loss)	$ 23,549	$ 16,853	$ 79,718	$ 55,690	$ 74,743	$ 52,626	$ (14,697)
Weighted average number of shares and common share equivalents diluted	39,452,915	36,980,861	38,922,611	34,485,127	29,525,677	26,505,128	26,305,117
Earnings per common share diluted	$ 0.60	$ 0.46	$ 2.05	$ 1.61	$ 2.53	$ 1.99	$ (0.56)
Dividends per common share	$ 0.12	$ 0.11	$ 0.47	$ 0.44	$ 0.30	$ 0.20	$ 0.25
Dividend payout ratio	20.1%	24.1%	22.9%	27.3%	11.9%	10.1%	N/A

17

Table of Contents

	March 31,		December 31,				
	2003	2002	2002	2001	2000	1999	1998
	(Dollars in thousands)						
Consolidated Summary of Financial Condition:							
Assets:							
Cash	$ 46,999	$ 53,963	$ 25,211	$ 68,607	$ 61,543	$ 33,645	$ 114,375
Loans:							
Consumer(2)	9,817,459	7,542,070	9,063,755	7,092,959	4,309,317	1,516,669	933,010
Mortgage(3)	269,368	354,110	282,930	373,455	507,431	598,302	1,006,933
Commercial	93,339	79,972	97,216	85,312	107,586	66,927	52,940
Mortgage-backed securities	2,790,310	2,182,105	2,649,657	2,092,225	2,230,448	1,431,376	980,044
Investments and time deposits	110,502	383,244	115,771	110,667	102,311	171,143	131,417
Other assets	41,484	217,069	176,336	249,172	549,274	680,712	614,101
Total assets	$13,169,461	$10,812,533	$12,410,876	$10,072,397	$7,867,910	$4,498,774	$3,832,820
Liabilities:							
Deposits	$ 2,084,725	$ 2,252,441	$ 1,974,984	$ 2,329,326	$2,478,487	$2,212,309	$2,178,735
Notes payable on automobile secured financing	9,265,725	7,211,910	8,422,915	5,886,227	3,473,377	461,104	
FHLB advances and other borrowings	515,265	147,946	618,766	723,675	616,193	498,901	440,924
Amounts held on behalf of trustee		262,214	177,642	280,496	494,858	687,274	528,092
Subordinated debentures	397,406	147,850	400,561	147,714	189,962	199,298	239,856
Other liabilities	162,749	83,075	101,145	85,994	71,221	59,140	94,311
Total liabilities	12,425,870	10,105,436	11,696,013	9,453,432	7,324,098	4,118,026	3,481,918
Minority interest in equity of subsidiaries	105,798	95,423	101,666	78,261	56,644	28,030	21,857
Shareholders equity	637,793	611,674	613,197	540,704	487,168	352,718	329,045
Total liabilities and shareholders equity	$13,169,461	$10,812,533	$12,410,876	$10,072,397	$7,867,910	$4,498,774	$3,832,820

	At or For the Three Months Ended March 31,		At or For the Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
			(Dollars in thousands)				
Operating Statistics Automobile Only:							
Automobile contract originations	$1,352,053	$1,265,526	$5,415,734	$4,863,279	$4,219,227	$3,340,146	$2,670,696
Percent of prime automobile contracts originated	82.4%	79.4%	80.3%	75.6%	68.8%	69.3%	67.7%
Automobile contracts managed at end of period	$9,650,229	$8,405,634	$9,389,974	$8,152,882	$6,818,182	$5,354,385	$4,367,099
	10.6%	11.7%	11.4%	12.7%	14.0%	13.6%	13.4%

Weighted average coupon on originated automobile contacts							
Operating expenses as a percentage of average managed automobile contracts	2.5%	2.5%	2.4%	2.7%	3.1%	3.6%	4.5%
Automobile contracts delinquent 60 days or greater	0.7%	0.7%	1.0%	1.1%	0.9%	0.8%	1.1%
Net chargeoffs as a percent of the average outstanding managed automobile contracts	2.9%	2.8%	2.8%	2.3%	1.9%	2.1%	3.4%

Table of Contents

	For the Three Months Ended March 31,		For the Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
			(Dollars in thousands)				
Other Selected Financial Data:							
Average assets	$12,932,117	$10,433,517	$11,572,027	$9,280,377	$6,242,668	$3,952,360	$3,859,202
Return on average assets	0.73%	0.65%	0.69%	0.60%	1.20%	1.33%	(0.38)%
Average shareholders equity(4)	$ 722,610	$ 614,157	$ 654,109	$ 570,298	$ 450,323	$ 351,162	$ 327,687
Return on average shareholders equity(4)	13.04%	10.98%	12.19%	9.77%	16.60%	14.99%	(4.49)%
Equity to asset ratio(4)	5.57%	5.32%	5.76%	5.97%	6.38%	8.32%	8.49%
Book value per share(4)	$ 18.71	$ 16.98	$ 18.23	$ 16.80	$ 15.72	$ 14.06	$ 12.29
Originations:							
Consumer loans(2)	$ 1,353,928	$ 1,266,189	$ 5,419,296	$4,869,970	$4,232,115	$3,355,732	$2,680,341
Mortgage loans(3)	4,314	9,139	23,950	23,001	33,124	276,936	2,754,398
Commercial loans(3)	96,684	61,268	354,439	291,944	266,342	237,316	124,259
Total originations	$ 1,454,926	$ 1,336,596	$ 5,797,685	$5,184,915	$4,531,581	$3,869,984	$5,558,998
Interest rate spread	5.02%	5.57%	5.29%	4.99%	4.37%	3.59%	2.83%

(1) Includes $18.0 million in restructuring charges in 1998.

(2) Net of unearned discounts.

(3) Net of undisbursed loan proceeds.

(4) Accumulated other comprehensive income (loss) excluded from shareholders equity.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and notes thereto and other information included or incorporated by reference herein.

Overview

Our primary sources of revenue are net interest income and noninterest income. Net interest income is the difference between the income earned on interest earning assets and the interest paid on interest bearing liabilities. We generate interest income from our loan portfolio, which consists of consumer, mortgage and commercial loans, from investments in mortgage-backed securities and from other short-term investments. We fund our loan portfolio and investments with deposits, advances from the FHLB, securities sold under agreements to repurchase, securitizations, other borrowings and equity.

Noninterest income is primarily made up of revenues generated from the sale and servicing of contracts and real estate loans. The primary components of noninterest income include late charges and other collection related fee income on managed contracts, retained interest income or expense, gain on sale of contracts and real estate loans, and contractual servicing income on contracts in securitization transactions treated as sales for accounting purposes. Since March 2000, we have structured our securitizations as secured financings and no longer record non-cash gain on sale at the time of each securitization or record subsequent contractual servicing and retained interest income, the valuation of which is based upon subjective assumptions. Rather, the earnings of the contracts in the trust and the related financing costs are reflected over the life of the underlying pool of contracts as net interest income. In addition, our provision for credit losses has increased as we hold securitized loans on our balance sheet.

Our decision to account for our securitizations as secured financings rather than as sales was based upon a business philosophy that focuses on presenting high quality, cash-based earnings and maintaining a conservative, well-capitalized balance sheet. We believe that a presentation in which assets and liabilities remain on the balance sheet for securitization transactions treated as secured financings provides a better understanding of our business and the inherent risks associated with our securitizations. Since March 2000, in order to account for some of our securitizations as secured financings rather than as sales, those securitizations include a provision that provides us with the right to repurchase contracts at any time. The percentage of contracts that we may repurchase was increased from 10% to 20% as of March 2000. Other securitization transactions since March, 2000 allow the trust to invest in and sell other financial assets. We believe that our decision to make these accounting changes has created a transitional period during which our earnings have been adversely impacted as we built our on balance sheet portfolio of loans. This change affects the comparability of our financial statements from 2000 through the first quarter of 2003.

Effective January 1, 2003, we regained control over assets of the trusts for all of our pre-March 2000 outstanding securitization transactions previously treated as sales for accounting purposes. We regained control of these assets when each trust was given the ability to invest in financial assets not related to the securitization of contracts. In accordance with paragraph 55 of Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, also known as SFAS No. 140, and Emerging Issues Task Force 02-9, Accounting for Changes that Result in a Transferor Regaining Control of Financial Assets Sold, we recorded $525 million of automobile contracts and the related notes payable on automobile secured financings on our Consolidated Statements of Financial Condition and have eliminated all remaining amounts due from trusts and amounts held on behalf of trustee. We will no longer recognize retained interest income or expense or contractual servicing income on our Consolidated Statements of Income. Rather, we will recognize interest income on automobile contracts held in these trusts and record interest expense on notes payable on automobile secured financings. These loans were considered in the overall evaluation of the adequacy of our allowance for credit losses. See Financial Condition Asset Quality.

During the first quarter of 2003, delinquent accounts greater than 120 days past due that were subject to Chapter 13 bankruptcy proceedings were reclassified to contracts receivable and the related reserves

Table of Contents

were reclassified to the allowance for credit losses on the Consolidated Statements of Financial Condition. Previously, such amounts were reported as nonperforming assets and were included in other assets on the Statement of Financial Condition. The prior year amounts have been reclassified accordingly. These contracts were considered in the overall evaluation of the adequacy of our allowance for credit losses.

Critical Accounting Policies

Management believes critical accounting policies are important to the portrayal of our financial condition and results of operations. Critical accounting policies require difficult and complex judgments because they rely on estimates about the effect of matters that are inherently uncertain due to the impact of changing market conditions. The following is a summary of accounting policies we consider critical.

Securitization Transactions

Contracts sold by us to our special purpose entity subsidiaries in connection with a securitization transaction are treated as having been sold for bankruptcy purposes and as secured financings under Generally Accepted Accounting Principles, also known as GAAP. For GAAP purposes, the contracts are retained on the balance sheet with the securities issued to finance the contracts recorded as notes payable on automobile secured financing. We record interest income on the securitized contracts and interest expense on the notes issued through the securitization transactions.

As servicer of these contracts, we may hold and remit funds collected from the borrowers on behalf of the trustee pursuant to reinvestment contracts that we have entered into or we may send funds to a trustee to be held until the distribution dates, depending on the terms of our securitizations. For securitization transactions that were treated as sales, these amounts were reported as amounts held on behalf of trustee on our Consolidated Statements of Financial Condition.

Allowance for Credit Losses

Management determines the amount of the allowance for credit losses based on a review of various quantitative and qualitative analyses. Quantitative analyses include the review of chargeoff trends by loan program and loan type on an owned and managed basis, analysis of cumulative losses on both a managed and sold basis and evaluation of credit loss experience by credit tier and geographic location. Other quantitative analyses include the evaluation of the size of any particular asset group, the concentration of any credit tier, the level of nonperformance and the percentage of delinquency.

Qualitative analyses include trends in chargeoffs over various time periods and at various statistical midpoints and high points, the severity of depreciated values of repossessions or foreclosures, trends in the number of days repossessions are held in inventory, trends in the number of loan modifications, trends in delinquency roll rates, trends in deficiency balance collections both internally and from collection agencies, trends in custom scores and the effectiveness of our custom scores and trends in the economy generally or in specific geographic locations. Despite these analyses, we recognize that establishing allowance for credit losses is not an exact science and can be highly judgmental in nature.

The analysis of the adequacy of the allowance for credit losses is not only dependent upon effective quantitative and qualitative analyses, but also effective loan review and asset classification. We classify our assets in accordance with regulatory guidance. Our multifamily and commercial loan portfolios are evaluated individually while our single family and consumer portfolios are evaluated in pools. We classify our loan portfolios into five categories: Pass, Special Mention, Substandard, Doubtful and Loss. Based upon our asset classifications, we establish general and specific valuation allowances.

General valuation allowances are determined by applying various factors to loan balances that are classified as Pass, Special Mention, Substandard or Doubtful. Specific valuation allowances represent loan amounts that are classified as Loss. Some assets may be split into more than one asset classification due to fair value or net realizable value calculations. This approach allows for enhanced analysis as it highlights the need for more allowance than would be generally allocated if held in one classification.

Table of Contents

All contracts that are 60 to 90 days delinquent are automatically classified as Special Mention. Real estate loans that are manifesting a weakness in performance are classified as Special Mention. Any contract that is 90 or more days delinquent is automatically classified as Substandard. Real estate loans that are manifesting a significant weakness in performance are also classified as Substandard. Any multifamily loan that is impaired is classified as Substandard. Any contract where the borrower has filed for bankruptcy or where the vehicle has been repossessed by us and is subject to a redemption period is classified as Substandard, with the difference between the wholesale book value and loan balance classified as Loss.

The allowance for credit losses is increased by charging the provision for credit losses and decreased by actual losses on the loans or by reversing the allowance for credit losses through the provision for credit losses when the amount of loans held on balance sheet is reduced through securitization transactions treated as sales.

Derivatives and Hedging Activities

Deposits and Securities Sold Under Agreements to Repurchase

We may enter into cash flow hedges that will protect against potential changes in interest rates affecting interest payments on future deposits gathered by us and future securities sold under agreements to repurchase. The fair value of the interest rate swap agreements is included in deposits and securities sold under agreements to repurchase, respectively, and any change in the fair value is reported as accumulated other comprehensive income (loss), net of tax, on our Consolidated Statements of Financial Condition. Related interest income or expense is settled on a quarterly basis and is recorded in accumulated other comprehensive income (loss) and reclassified into earnings in the period during which cash flows on the hedged items affect income.

Notes Payable on Automobile Secured Financing

The contracts originated and held by us are fixed rate and, accordingly, we have exposure to changes in interest rates. To protect against potential changes in interest rates affecting interest payments on future securitization transactions, we may enter into various hedge agreements prior to closing the transaction. The market value of these hedge agreements is designed to respond inversely to changes in interest rates. Because of this inverse relationship, we can effectively lock in a gross interest rate spread at the time of entering into the hedge transaction. Gains and losses on these agreements are recorded in accumulated other comprehensive income (loss), net of tax, on our Consolidated Statements of Financial Condition. Any ineffective portion is recognized in interest expense during that period if the hedge is greater than 100% effective. Upon completion of the securitization transaction, the gains or losses are recognized in full as an adjustment to the gain or loss on the sale of the contracts if the securitization transaction is treated as a sale or amortized on a level yield basis over the duration of the notes issued if the transaction is treated as a secured financing.

If we issue certain variable rate notes payable in connection with our securitization activities, we also may enter into interest rate swap agreements in order to hedge our variable interest rate exposure on future interest payments. The fair value of the interest rate swap agreements is included in notes payable on automobile secured financing, and any change in the fair value is reported as accumulated other comprehensive income (loss), net of tax, on our Consolidated Statements of Financial Condition. Any ineffective portion is recorded in interest expense during that period if the hedge is greater than 100% effective. Related interest income or expense is settled on a quarterly basis and recognized as an adjustment to interest expense in our Consolidated Statements of Income.

We also enter into interest rate swap agreements or other derivatives that we choose not to designate as hedges or that do not qualify for hedge accounting under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, also known as SFAS No. 133. These derivatives pertain to variable rate notes issued in conjunction with the securitization of our contracts. Any change in the market value of such derivatives is recorded to noninterest income each month. Any income or expense recognized on such derivatives is recognized as miscellaneous noninterest income or expense.

Table of Contents

Results of Operations

Net Interest Income

Net interest income is affected by the difference between the rate earned on our interest earning assets and the rate paid on our interest bearing liabilities (interest rate spread) and the relative amounts of our interest earning assets and interest bearing liabilities. For the three months ended March 31, 2003 and 2002, net interest income totaled $166 million and $142 million, respectively. The increase in net interest income was the result of us holding more automobile contracts on the balance sheet even as overall net interest margins declined. Net interest income totaled $612 million, $471 million and $270 million for the years ended December 31, 2002, 2001 and 2000, respectively. The increase in net interest income for each of the past three years is primarily the result of us holding a greater percentage of contracts on balance sheet as we utilized our own liquidity sources and completed public securitizations.

The following table presents information relating to the average balances and interest rates on an owned basis for the periods indicated:

	For the Three Months Ended March 31,					
	2003			2002		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in thousands)					
Interest earning assets:						
Total investments:						
Mortgage-backed securities	$ 2,485,200	$ 24,773	3.99%	$ 2,110,468	$ 27,982	5.30%
Other short-term investments	238,695	1,323	2.25	140,380	1,159	3.35
Investment securities	9,957	93	3.75	10,619	118	4.45
Interest earning deposits with others	10,245	25	0.98	5,806	25	1.69
Total investments	2,744,097	26,214	3.82	2,267,273	29,284	5.17
Total loans:						
Consumer loans	9,696,850	276,131	11.55	7,171,640	225,450	12.75
Mortgage loans(1)	271,943	3,819	5.62	351,960	5,803	6.59
Commercial loans	115,537	1,338	4.63	100,716	1,659	6.59
Total loans	10,084,330	281,288	11.31	7,624,316	232,912	12.38
Total interest earning assets	12,828,427	307,502	9.71	9,891,589	262,196	10.73
Noninterest earning assets:						
Amounts due from trusts				131,741		
Retained interest in securitized assets				34,978		
Premises, equipment and real estate owned	77,748			79,018		
Other assets	394,248			572,655		
Less: allowance for credit losses	273,730			181,888		
Total	$13,026,693			$10,528,093		
Interest bearing liabilities:						
Deposits	$ 1,963,276	$ 17,556	3.63	$ 2,343,538	$ 21,010	3.64
Securities sold under agreements to repurchase	248,374	1,289	2.08	146,908	1,045	2.84
FHLB advances and other borrowings	426,590	1,631	1.55	470,646	2,500	2.15
	9,017,784	110,799	4.91	6,221,646	92,018	5.92

Notes payable on automobile secured financing						
Subordinated debentures	398,812	9,937	9.97	147,760	3,497	9.47
Total interest bearing liabilities	12,054,836	141,212	4.69	9,330,498	120,070	5.16
Noninterest bearing liabilities:						
Amounts held on behalf of trustee				329,249		
Other liabilities	347,845			302,900		
Shareholders equity	624,012			565,446		
Total	$13,026,693			$10,528,093		
Net interest income and interest rate spread		$166,290	5.02%		$142,126	5.57%
Net yield on average interest earning assets			5.19%			5.75%

Table of Contents

	For the Year Ended December 31,								
	2002			2001			2000		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in thousands)								
Interest earning assets:									
Total investments:									
Mortgage-backed securities	$ 2,202,950	$ 113,327	5.14%	$ 2,245,861	$ 133,539	5.95%	$ 1,870,908	$ 128,231	6.85%
Other short-term investments	338,485	7,635	2.26	159,599	7,468	4.68	246,908	15,609	6.32
Investment securities	5,105	318	6.22	7,194	433	6.02	10,216	535	5.24
Interest earning deposits with others	30,044	343	1.14	2,628	74	2.80	2,069	110	5.32
Total investments	2,576,584	121,623	4.72	2,415,282	141,514	5.86	2,130,101	144,485	6.78
Total loans:									
Consumer loans	8,012,003	993,417	12.40	5,746,413	779,256	13.56	2,672,690	386,182	14.45
Mortgage loans(1)	329,693	22,865	6.94	441,804	34,536	7.82	551,498	44,225	8.02
Commercial loans	90,642	5,035	5.55	99,904	7,321	7.33	97,586	8,929	9.15
Total loans	8,432,338	1,021,317	12.11	6,288,121	821,113	13.06	3,321,774	439,336	13.23
Total interest earning assets	11,008,922	1,142,940	10.38	8,703,403	962,627	11.06	5,451,875	583,821	10.71
Noninterest earning assets:									
Amounts due from trusts	121,627			227,890			413,653		
Retained interest in securitized assets	15,888			74,509			141,724		
Premises, equipment and real estate owned	80,277			82,277			84,627		
Other assets	553,654			318,674			227,095		
Less: allowance for credit losses	208,341			126,376			76,306		
Total	$ 11,572,027			$ 9,280,377			$ 6,242,668		
Interest bearing liabilities:									
Deposits	$ 2,196,261	80,015	3.64	$ 2,319,466	114,831	4.95	$ 2,380,155	133,610	5.61

Securities sold under agreements to repurchase	222,154	5,543	2.50	155,387	7,014	4.51		449,778	27,950	6.21
FHLB advances and other borrowings	244,284	5,281	2.16	443,337	20,424	4.61		270,043	16,694	6.18
Notes payable on automobile secured financing	7,426,265	406,851	5.48	5,018,456	333,768	6.65		1,655,936	118,421	7.15
Subordinated debentures	331,990	33,226	10.01	170,531	15,907	9.33		192,025	17,197	8.96
Total interest bearing liabilities	10,420,954	530,916	5.09	8,107,177	491,944	6.07		4,947,937	313,872	6.34
Noninterest bearing liabilities:										
Amounts held on behalf of trustee	240,667			365,376				693,810		
Other liabilities	394,863			278,325				169,435		
Shareholders equity	515,543			529,499						

Table of Contents

Currently NOVA is manufacturing illuminators to meet customer demand and maintain our own inventory levels. Subject to obsolescence, we may be required to identify and qualify replacement components for illuminators and in doing so, we may be required to conduct additional studies, which could include clinical trials to demonstrate equivalency or validate any required design or component changes. Future supply of illuminators is limited to availability of components, some of which are in short supply or are no longer manufactured. Certain of our components are in limited supply and are used as spare parts for the maintenance of illuminators used by our customers. We and our customers rely on the availability of spare parts to ensure that customer platelet and plasma production is not interrupted. If we are not able to supply spare parts for the maintenance of customer illuminators, our ability to keep existing customers or sign up new customers may be negatively impacted. Due to the obsolescence of certain parts, we will likely need to redesign the illuminators used in the platelet and plasma systems. Such redesign may be expensive and could lead to regulatory delays in obtaining approvals to market the redesigned device. In addition, our illuminators contain embedded proprietary software that runs on software code we have developed and that we own. Changes to certain components due to obsolescence, illuminator redesign or market demand, may require us to modify the existing software code or to develop new illuminator software. Our ability to develop new illuminator software, correct coding flaws and generally maintain the software code is reliant on third-party contractors who, in some cases, have sole knowledge of the software code. Our ability to develop and maintain the illuminator software may be impaired if

we are not able to continue contracting with those key third-party contracted developers or if we are unable to source alternate employees or consultants to do so.

In the event that alternate manufacturers are identified and qualified, we will need to transfer know-how relevant to the manufacture of the INTERCEPT Blood System to such alternate manufacturers; however, certain of our supplier s materials, manufacturing processes and methods are proprietary to them, which will impair our ability to establish alternate sources of supply, even if we are required to do so as a condition of regulatory approval. We may be unable to establish alternate sources of supply to Fresenius, NOVA, or other suppliers without having to redesign certain elements of the platelet and plasma systems. Such redesign may be costly, time consuming and require further regulatory review and approvals. Fresenius is not obligated to provide support for development and testing of improvements or changes we may make to the INTERCEPT Blood System. We may be unable to identify, select, and qualify such manufacturers or those third parties able to provide support for development and testing activities on a timely basis or enter into contracts with them on reasonable terms, if at all. Moreover, the inclusion of components manufactured by new suppliers could require us to seek new or updated approvals from regulatory authorities, which could result in delays in product delivery. We may not receive any such required regulatory approvals. We cannot assure you that any amendments to existing manufacturing agreements or any new manufacturing agreements that we may enter into will contain terms favorable to those that we currently have with our manufacturers. Many of the existing agreements we have with suppliers contain provisions that we have been operating under for an extended period of time, including pricing. Should

we enter into agreements or amend agreements with any manufacturer with less favorable terms, including pricing, our results of operations may be impacted, our recourse against such manufacturers may be limited, and the quality of our products may be impacted.

Raw materials, components or finished product may not meet specifications or may be subject to other nonconformities. In several instances over the past two years, nonconformities in certain component lots have caused delays in manufacturing of INTERCEPT disposable kits. Non-conformities can increase our expenses and reduce gross margins. Should non-conformities occur in the future, we may be unable to manufacture products to meet customer demand, which would result in lost sales and could cause irreparable damage to our customer relationships. Later discovery of problems with a product, manufacturer or facility may result in additional restrictions on the product, manufacturer or facility, including withdrawal of the product from the market. We are subject to risks and costs of product recall, which include not only potential out-of-pocket costs, but also potential interruption to our supply chain. In such an event, our customer relations could be harmed and we would incur unforeseen losses.

In the event of a failure by Fresenius or other manufacturers to perform their obligations to supply components of the INTERCEPT Blood System to us, damages recoverable by us may be insufficient to compensate us for the full loss of business opportunity. Many of our supply agreements contain limitations on incidental and consequential damages that we may recover. A supplier s potential liability in the event of non-performance may not be sufficient to compel the supplier to continue to act in conformity with our agreements. Our product supply chain requires us to purchase certain components in minimum quantities and

may result in a production cycle of more than one year. Significant disruptions to any of the steps in our supply chain process may result in longer productions cycles which could lead to inefficient use of cash or may impair our ability to supply customers with product.

We may encounter unforeseen manufacturing difficulties which, at a minimum, may lead to higher than anticipated costs, scrap rates, manufacturing overhead variances or delays in manufacturing products. In addition, we may not receive timely or accurate demand information from distributors or may not accurately forecast demand ourselves for the INTERCEPT Blood System. As a result, we may carry excess work-in-process or finished goods inventory, which would consume capital resources and may become obsolete, or our inventory may be inadequate to meet customer demand. We have entered into certain public tenders, some which call for us to maintain certain minimum levels of inventory. If our suppliers fail to produce components or our finished products satisfactorily, timely, at acceptable costs, and in sufficient quantities, we may incur delays, shortfalls and additional expenses, or non-compliance with certain public tenders which may in turn result in permanent harm to our customer relations or loss of customers. Our platelet and plasma systems disposable kits have a two-year shelf life from the date of manufacture. We and our distributors may be

unable to ship product to customers prior to the expiration of the product shelf life, which would require that we destroy or consume the outdated inventory in product demonstration activities. Product expiration may in turn lead to elevated product demonstration costs or reduced gross margins.

We are subject to federal, state and foreign laws governing our business practices which, if violated, could result in substantial penalties and harm our reputation and business.

We are subject to a number of laws that affect our sales, marketing and other promotional activities by limiting the kinds of financial arrangements we may have with hospitals, physicians, healthcare providers or other potential purchasers of our products. These laws are often broadly written, and it is often difficult to determine precisely how these laws will be applied to specific circumstances. For example, within the European Union, the control of unlawful marketing activities is a matter of national law in each of the member states. The member states of the European Union closely monitor perceived unlawful marketing activity by companies. We could face civil, criminal and administrative sanctions if any member state determines that we have breached our obligations under its national laws. Industry associations also closely monitor the activities of member companies. If these organizations or authorities name us as having breached our obligations under their regulations, rules or standards, our reputation would suffer and our business and financial condition could be adversely affected.

We are also subject to the U.S. Foreign Corrupt Practices Act and anti-corruption laws, and similar laws with a significant anti-corruption intent in foreign countries.

In general, there is a worldwide trend to strengthen anticorruption laws and their enforcement. Any violation of these laws by us or our agents or distributors could create a substantial liability for us, subject our officers and directors to personal liability and also cause a loss of reputation in the market. We currently operate in many countries where the public sector is perceived as being more or highly corrupt. Our strategic business plans include expanding our business in regions and countries that are rated as higher risk for corruption activity, such as China, India and Russia. Becoming familiar with and implementing the infrastructure necessary to comply with laws, rules and regulations applicable to new business activities and mitigate and protect against corruption risks could be quite costly. In addition, failure by us or our agents or distributors to comply with these laws, rules and regulations could delay our expansion into high-growth markets, could damage market perception of our business and could adversely affect our existing business operations. Increased business in higher risk countries could also subject us and our officers and directors to increased scrutiny and increased liability.

Our platelet products and product candidates are not compatible with some collection and storage methods or combinations thereof.

The equipment and materials used to collect platelets vary by manufacturer and by geographic region. Platelets may be collected from a single donor by apheresis using an automated collection machine. Apheresis devices currently used in the United States of America and European markets differ, among other characteristics, in their ability to collect platelets in reduced volumes of plasma. Platelet concentrates may also be prepared from whole blood by pooling together platelets from multiple donors. There are two commonly used methods for preparing whole blood platelets: the buffy

coat method, which is used extensively in Europe, and the pooled random donor method, which is used in the United States of America. Our platelet system is designed to work with platelets collected and stored in storage solutions, called InterSol and SSP+, and for platelets suspended in 100% plasma. Fresenius is the exclusive manufacturer of InterSol and MacoPharma of SSP+, both widely-used platelet additive solutions. Many of our customers and prospective customers use InterSol or SSP+ in connection with INTERCEPT treatment. Should Fresenius or MacoPharma fail to obtain or maintain regulatory approval for InterSol or SSP+, respectively, or if either should decide to cease distribution of their respective additive solutions to customers and prospective customers, our ability to sell the INTERCEPT Blood System may be impaired. In addition, we may be required to produce and demonstrate additional acceptable data for usage of the INTERCEPT Blood System with various combinations of collection platforms and storage solutions before we could receive regulatory approval from the FDA and elsewhere.

In order to address the entire market in the United States of America, Japan, and potentially elsewhere, we would need to develop and test additional configurations of the platelet system. For example, in the United States of America, we understand a significant number of platelet concentrates are derived from larger volumes collected from apheresis donors split into three therapeutic transfusable doses. Future configurations of the platelet system will be needed to treat platelet donations with such processing parameters. We estimate that the majority of platelets used in the United States of America are collected by apheresis, though a significant minority are prepared from pooled random donor platelets derived from whole blood collections. In order to gain regulatory approvals for a pathogen inactivation system compatible

with random donor platelets, we will need to perform additional product development and testing, including additional clinical trials. Similarly, to achieve market acceptance in certain geographies, we may be required to design, develop and test new product configurations for the platelet and plasma systems. These development activities would increase our costs significantly and may not be successful. We may need to demonstrate the safety and efficacy of our platelet system using a variety of configurations before our platelet system would be approved for such configurations.

Table of Contents

Other manufacturers supplying blood component collection platforms to the market may resist our efforts to make the INTERCEPT Blood System for platelets compatible with their platforms and may have competing pathogen inactivation technologies. In addition, regulatory agencies such as the FDA may limit usage of the INTERCEPT Blood System to certain collection platforms, platelet additive solutions and plasma. Attaining compatibility or receiving regulatory approval with collection platforms manufactured by others in combination with additive solutions or 100% plasma may require additional clinical testing, adaptations to either the INTERCEPT Blood System or to the collection platforms, which may be difficult to engineer, expensive to implement and test, require additional clinical trials, cause delays in regulatory approval and/or be commercially unattractive to pursue. These development activities may increase our costs significantly and may not be successful. Market acceptance of the INTERCEPT Blood System may be delayed until the system receives regulatory approval for use on such other equipment, if required.

We have used prototype components in our preclinical studies and clinical trials of the red blood cell system and have not completed the components commercial design. We will be required to identify and enter into agreements with third parties to further develop and manufacture the red blood cell system. Failure to maintain these relationships, poor performance by these third parties or disputes with these third parties could negatively impact our business.

The red blood cell systems that have been used and are currently being used in our clinical trials have been and are prototypes of the system expected to be used in the

final product. As a result, we plan to perform additional preclinical studies and clinical trials using the commercial version of the system to demonstrate the acceptability of the commercial configuration and the equivalence of the prototypes and the commercial product, which will increase our expenses and delay the potential commercialization of our red blood cell system. We may determine that the red blood cell system may not be commercially feasible from potential customers perspectives. If we fail to develop commercial versions of the red blood cell system in a timely manner, our potential revenue would be delayed or diminished and our potential competitors may be able to bring products to market before we do.

The design and engineering effort required to complete the final commercial version of our red blood cell system will likely be substantial and time-consuming. As with any complex development effort, we expect to encounter design, engineering and manufacturing issues, which issues could be exacerbated if the partners with whom we will be working have competing or conflicting priorities or ideas on the development and design of the system. Such issues have previously arisen, sometimes unexpectedly, and solutions to these issues have not always been readily forthcoming. We cannot guarantee that if such issues arise, they will be resolved in a commercially viable manner. Additional unforeseen design, engineering and manufacturing issues may arise in the future, which could increase the development cost and delay commercialization of our red blood cell system. We will need to identify and contract with manufacturers who can develop processes to manufacture components and the compounds used in the red blood cell system. For commercial manufacturing, we will need to demonstrate to regulatory authorities that the commercial scale manufacturing processes comply with government

regulations and that the compounds are equivalent to originally licensed compounds. It may be difficult to economically manufacture the red blood cell system on a commercial scale and such costs may ultimately exceed the price the market is willing to pay for such a system.

If our competitors develop products superior to ours, market their products more effectively than we market our products, or receive regulatory approval before our products, our commercial opportunities could be reduced or eliminated.

We expect our products will continue to encounter significant competition. The INTERCEPT Blood System products compete with other approaches to blood safety currently in use and may compete with future products that may be developed by others. Our success will depend in part on our ability to respond quickly to customer and prospective customer needs, successfully receive and maintain regulatory approvals, and adapt to medical and technological changes brought about by the development and introduction of new products. Competitors products or technologies may make our products obsolete or non-competitive before we are able to generate any significant revenue. In addition, competitors or potential competitors may have substantially greater financial and other resources than we have. They may also have greater experience in preclinical testing, human clinical trials and other regulatory approval procedures. If competitors products experience significant problems, customers and potential customers may question the safety and efficacy of all pathogen inactivation technologies, including the INTERCEPT Blood System. Such questions and concerns may impair our ability to market and sell the INTERCEPT Blood System.

Several companies have, or are developing, technologies that are, or in the future may be, the basis for products that will directly compete with or reduce the market for our pathogen inactivation systems. A number of companies are specifically focusing on alternative strategies for pathogen inactivation in platelets and plasma.

These alternative strategies may be more effective in inactivating certain types of pathogens from blood products, including certain non-lipid-enveloped viruses, such as hepatitis A and E viruses, which our products have not demonstrated an ability to inactivate, or human parvovirus B-19, which is also a non-lipid-enveloped virus, for which our products have not demonstrated a high level of inactivation. While studies have demonstrated that our products can effectively inactivate a broad spectrum of pathogens in blood components, market adoption of our products may be reduced if customers determine that competitors products inactivate a broader range of pathogens that are of particular interest to the transfusion medicine community. In addition, customers and prospective customers may believe that our competitors products are safer or more cost effective than INTERCEPT Blood System products. In Europe, several companies, including Grifols S.A., Octapharma AG, MacoPharma International and Kedrion Biopharma, are developing or selling commercial pathogen inactivation systems or services to treat fresh frozen plasma. Terumo BCT, a subsidiary of Terumo Corporation, has developed a pathogen inactivation system for blood products and has been issued CE marks for

Table of Contents

a pathogen reduction system for both platelets and plasma. We understand that Terumo BCT is also developing a pathogen inactivation system for whole blood. Terumo BCT s product candidate, if successful, may offer competitive advantages over our INTERCEPT Blood System. Terumo Corporation is a large Japanese-based, multinational corporation with more mature products and relationships than we have. Our ability to commercialize our products in certain markets, particularly in Japan, may be negatively affected by Terumo s resources and their pre-existing relationships with regulators and customers. Should Terumo BCT s product be approved for use and commercialized in Japan, we would likely directly compete with them and we believe we would likely either need to establish operations in Japan or partner with a local Japanese company.

Octapharma AG received FDA approval in January 2013 to sell treated fresh frozen plasma for certain indications and is currently commercially available. Should Octapharma enter into exclusive agreements with key customers, our plasma product candidate, should it receive approval in the United States of America, may encounter market resistance and have a more limited market into which we can sell.

Other companies developing competing products may also offer and sell other blood-banking products and services. As a result, competitors may have pre-existing long-term relationships with customers and may be able to offer synergies for both pathogen inactivation and non-pathogen inactivation products that we are unable to offer. Regulatory agencies may mandate use of competing products which would limit our ability to sell our products in those markets.

New methods of testing whole blood for specific pathogens have been approved by the FDA and in Europe, as have tests for bacteria in platelets. Other companies are marketing rapid, point-of-care bacterial tests, and developing synthetic blood product substitutes and products to stimulate the growth of platelets. Development and commercialization of any of these or other related technologies could limit the potential market for our products as would a mandate of any competing technology other than INTERCEPT.

We may be liable and we may need to withdraw our products from the market if our products harm people. We may be liable if an accident occurs in our controlled use of hazardous materials. Our insurance coverage may be inadequate to offset losses we may incur.

We are exposed to potential liability risks inherent in the testing and marketing of medical devices. We may be liable if any of our products cause injury, illness or death. Although we will have completed preclinical and clinical safety testing prior to marketing our products, there may be harmful effects caused by our products that we are unable to identify in preclinical or clinical testing. In particular, unforeseen, rare reactions or adverse side effects related to long-term use of our products may not be observed until the products are in widespread commercial use. Because of the limited duration and number of patients receiving blood components treated with the INTERCEPT Blood System products in clinical trials, it is possible that harmful effects of our products not observed in preclinical and clinical testing could be discovered after a marketing approval has been received. For example, in cases where we have obtained regulatory approval for our products, we have demonstrated pathogen inactivation to specified levels based on well-established tests. However, there is no way to determine, after treatment by

our products, whether our products have completely inactivated all of the pathogens that may be present in blood components. There is also no way to determine whether any residual amount of a pathogen remains in the blood component treated by our products and there is no way to exclude that such residual amount would be enough to cause disease in the transfused patient. For ethical reasons, we cannot conduct human testing to determine whether an individual who receives a transfusion of a blood component containing a pathogen that was inactivated using the INTERCEPT Blood System might show positive results if tested for an antibody against that pathogen. While we believe, based on the clinical experience of our scientists, that the level of inactivated pathogens would likely be too small to induce a detectable antibody response in diagnostic tests, we cannot exclude that a transfused patient might show positive results if tested for an antibody against that pathogen. We could be subject to a claim from a patient that tests positive, even though that patient did not contract a disease. In addition, should personnel at clinical study sites or ultimately, potential customers, be harmed by S-303, or believe they have been or could be harmed by S-303, our insurance coverage may be insufficient to provide coverage for any related potential liabilities. S-303 is considered a potent chemical and is the active compound of our red blood cell system.

We maintain product liability insurance, but do not know whether the insurance will provide adequate coverage against potential liabilities. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our products.

Our research and development activities involve the controlled use of hazardous materials, including certain hazardous chemicals, radioactive materials and

infectious pathogens, such as HIV and hepatitis viruses. Although we believe that our safety procedures for handling and disposing of hazardous materials are adequate and comply with regulatory requirements, we cannot eliminate the risk of accidental contamination or injury. If an accident occurs, we could be held liable for any damages that result.

Table of Contents

If we fail to obtain the capital necessary to fund our future operations or if we are unable to generate positive cash flows from our operations, we will need to curtail planned development or sales and commercialization activities.

Our near-term capital requirements are dependent on various factors, including operating costs and working capital investments associated with commercializing the INTERCEPT Blood System, costs associated with the modular PMA submission process for both the platelet and plasma systems, costs associated with pursuing potential regulatory approvals in other geographies where we do not currently sell our platelet and plasma systems, costs associated with conducting *in vitro* studies and clinical development of our red blood cell system in Europe and the United States of America, including our two ongoing European Phase III clinical trials for the red blood cell system, and costs related to creating, maintaining and defending our intellectual property. Our long-term capital requirements will also be dependent on the success of our sales efforts, competitive developments, the timing, costs and magnitude of our longer-term clinical trials and other development activities related to our platelet, plasma and red blood cell systems, market preparedness and product launch activities for any of our products in geographies where we do not currently sell our products, and regulatory factors. Until we are able to generate a sufficient amount of product revenue and generate positive net cash flows from operations, which we may never do, meeting our long-term capital requirements is in large part subject to access to equity and debt capital markets, as well as to collaborative arrangements with partners, augmented by cash generated from operations and interest income earned on the investment

of our cash balances. We believe that cash received from product sales, our available cash balances and access to debt will be sufficient to meet our capital requirements for at least the next twelve months. If our assumptions prove to be incorrect, we could consume our available capital resources sooner than we currently expect, which could adversely affect the commercialization and clinical development activities.

We have borrowed and in the future may borrow additional capital from institutional and commercial banking sources to fund future growth, including pursuant to our loan and security agreement with Oxford Finance as described below or potentially pursuant to new arrangements with different lenders. We may borrow funds on terms that may include restrictive covenants, including covenants that restrict the operation of our business, liens on assets, high effective interest rates and repayment provisions that reduce cash resources and limit future access to capital markets. In addition, we expect to continue to opportunistically seek access to the equity capital markets to support our development efforts and operations. To the extent that we raise additional capital by issuing equity securities, our stockholders may experience substantial dilution. To the extent that we raise additional funds through collaboration or partnering arrangements, we may be required to relinquish some of our rights to our technologies or rights to market and sell our products in certain geographies, grant licenses on terms that are not favorable to us, or issue equity that may be substantially dilutive to our stockholders.

As a result of economic conditions, general global economic uncertainty and other factors, we do not know whether additional capital will be available when needed, or that, if available, we will be able to obtain additional capital on reasonable terms. If we are unable to raise

additional capital due to disruptions to the global credit and financial markets, general economic uncertainty or other factors, we may need to curtail planned development or commercialization activities. In addition, we will need to obtain additional funds to complete development activities for the red blood cell system necessary for potential regulatory approval in Europe. We do not plan on conducting any additional clinical trials of the red blood cell, platelet or plasma systems in the United States of America unless and until we can obtain sufficient additional funding or, at such time, our existing operations provide sufficient cash flow to conduct these trials.

Covenants in our loan and security agreement restrict our business and operations in many ways and if we do not effectively manage our covenants, our financial conditions and results of operations could be adversely affected. In addition, our operations may not provide sufficient cash to meet the repayment obligations of our debt incurred under the loan and security agreement.

Our loan and security agreement with Oxford Finance provides for up to $30.0 million in term loans due on June 1, 2019, of which $10.0 million in term loans has been borrowed to date. All of our current and future assets, except for intellectual property and 35% of our investment in our subsidiary, Cerus Europe B.V., are secured for our borrowings under the loan and security agreement. The loan and security agreement requires that we comply with certain covenants applicable to us and our subsidiaries, including among other things, covenants restricting dispositions, changes in business, management, ownership or business locations, mergers or acquisitions, indebtedness, encumbrances, distributions, investments, transactions with affiliates and subordinated debt, any of which could restrict our business and

operations, particularly our ability to respond to changes in our business or to take specified actions to take advantage of certain business opportunities that may be presented to us. Our failure to comply with any of the covenants could result in a default under the loan and security agreement, which could permit the lenders to declare all or part of any outstanding borrowings to be immediately due and payable, or to refuse to permit additional borrowings under the loan and security agreement. If we are unable to repay those amounts, the lenders under the loan and security agreement could proceed against the collateral granted to them to secure that debt, which would seriously harm our business. In addition, should we be unable to comply with these covenants or if we default on any portion of our outstanding borrowings, the lenders can also impose a 5% penalty and restrict access to additional borrowings under the loan and security agreement. Moreover, our ability to access any additional term loans under the loan and security agreement is subject to certain conditions, including our obtaining approval of our PMA for either the platelet or plasma system and achieving certain revenue thresholds, which conditions we may not be able to meet, which could preclude our ability to access any additional capital under the loan and security agreement and could adversely affect our liquidity.

Table of Contents

Virtually all of our research and development activities and the significant majority of our general and administrative activities are performed in or managed from a single site that may be subject to lengthy business interruption in the event of a severe earthquake. We also may suffer loss of computerized information and may be unable to make timely filings with regulatory agencies in the event of catastrophic failure of our data storage and backup systems.

Virtually all of our research and development activities and the significant portion of our general and administrative activities are performed in or managed from our facilities in Concord, California, which are within an active earthquake fault zone. Should a severe earthquake occur, we might be unable to occupy our facilities or conduct research and development and general and administrative activities in support of our business and products until such time as our facilities could be repaired and made operational. Our property and casualty and business interruption insurance in general does not cover losses caused by earthquakes. While we have taken certain measures to protect our scientific, technological and commercial assets, a lengthy or costly disruption due to an earthquake would have a material adverse effect on us. We have also taken measures to limit damage that may occur from the loss of computerized data due to power outage, system or component failure or corruption of data files. However, we may lose critical computerized data, which may be difficult or impossible to recreate, which may harm our business. We may be unable to make timely filings with regulatory agencies in the event of catastrophic failure of our data storage and backup systems, which may subject us to fines or adverse consequences, up to and

including loss of our ability to conduct business.

If we fail to attract, retain and motivate key personnel or to retain the members of our executive management team, our operations and our future growth may be adversely affected.

We are highly dependent upon our executive management team and other critical personnel, including our specialized research and development, regulatory and operations personnel, many of whom have been employed with us for many years and have a significant amount of institutional knowledge about us and our products. We do not carry key person insurance. If one or more members of our executive management team or other key personnel were to retire or resign, our ability to achieve development, regulatory or operational milestones for commercialization of our products could be adversely affected if we are unable to replace them with employees of comparable knowledge and experience. In addition, we may not be able to retain or recruit other qualified individuals, and our efforts at knowledge transfer could be inadequate. If knowledge transfer, recruiting and retention efforts are inadequate, significant amounts of internal historical knowledge and expertise could become unavailable to us.

We also rely on our ability to attract, retain and motivate skilled and highly qualified personnel in order to grow our company. Competition for qualified personnel in the medical device and pharmaceutical industry is very intense. If we are unable to attract, retain and motivate quality individuals, our business, financial condition, results of operations and growth prospects could be adversely affected. Even if we are able to identify and hire qualified personnel commensurate with our growth objectives and opportunities, the process of integrating new employees is time

consuming, costly and distracting to existing employees and management. Such disruptions may have an adverse impact on our operations, our ability to service existing markets and customers, or our ability to comply with regulations and laws.

All of the employees of our subsidiary, Cerus Europe B.V., are employed outside the United States of America, including in France, where labor and employment laws are relatively stringent and, in many cases, grant significant job protection to certain employees, including rights on termination of employment. In addition, one of our manufacturing partners is located in France and may have employees that are members of unions or represented by a works council as required by law. These more stringent labor and employment laws to the extent that they are applicable, coupled with the requirement to consult with the relevant unions or works councils, could increase our operational costs with respect to our own employees and could result in passed through operational costs by our manufacturing partner. If the increased operational costs become significant, our business, financial condition and results of operations could be adversely impacted.

Significant disruptions of information technology systems or breaches of data security could adversely affect our business.

Our business is increasingly dependent on complex and interdependent information technology systems, including internet-based systems, databases and programs, to support our business processes as well as internal and external communications. These computer systems are potentially vulnerable to breakdown, malicious intrusion and computer viruses which may result in the impairment of production and key business processes or loss of data or information. Additionally, our systems are potentially vulnerable to

data security breaches whether by employees or others which may expose sensitive data to unauthorized persons. Such data security breaches could lead to the loss of trade secrets or other intellectual property, or could lead to the public exposure of personal information (including sensitive personal information) of our employees, clinical trial patients, distributors, customers and others. Such disruptions and breaches of security could have a material adverse effect on our business, financial condition and results of operations.

Table of Contents

In addition, our existing enterprise resource planning system, a critical system used to run our business, will no longer be supported by the developer. Accordingly, we have recently implemented a new enterprise resource planning system (the ERP System). The new ERP System is extremely complex and impacts a significant number of our business processes. Should we experience unforeseen difficulties with our new ERP System, we may experience disruptions to our operations, increased costs in troubleshooting and resolving the issues, and erosion in confidence from customers and employees, any of which could have a material adverse effect on our business and operations.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

Under Section 382 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an ownership change, generally defined as a greater than 50% change (by value) in its equity ownership over a three-year period, the corporation s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes (such as research tax credits) to offset its post-change taxable income or taxes may be limited. Our prior and potential future equity offerings and other changes in our stock ownership, some of which are outside of our control could in the future result in an ownership change. If a limitation were to apply, utilization of a portion of our domestic net operating loss and tax credit carryforwards could be limited in future periods and a portion of the carryforwards could expire before being available to reduce future income tax liabilities.

We may not be able to protect our intellectual property or operate our

business without infringing intellectual property rights of others.

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

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

We cannot be certain that our patents or patents that we license from others will be enforceable and afford protection against competitors. Our patents or patent applications, if issued, may be challenged, invalidated or circumvented. Our patent rights may not provide us with proprietary protection or competitive advantages against competitors with similar technologies. Others may independently develop technologies similar to ours or independently duplicate our technologies. For example, a United States of America patent issued to a third-party covers methods to remove psoralen compounds from blood products. We have reviewed the patent and believe there exists substantial questions concerning its validity. We cannot be certain, however, that a court would hold the patent to be invalid or not infringed by our platelet or plasma systems, if and when those

products are sold in the United States of America. As a result, in order to commercialize our platelet or plasma systems in the United States of America, we may be required to obtain a license from the owner of the patent, which we may not be able to do at a reasonable cost or at all. Our patents expire at various dates between now and 2027. Recent patent applications will, if granted, result in patents with later expiration dates. In addition, we have a license from Fresenius to United States of America and foreign patents relating to the INTERCEPT Blood System, which expire at various dates from 2015 to 2024. Due to the extensive time required for development, testing and regulatory review of our potential products, our patents may expire or remain in existence for only a short period following commercialization. This would reduce or eliminate any advantage of the patents.

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

Our patents do not cover all of the countries in which we are selling, and planning to sell, our products. We will not be able to prevent potential competitors from using our technology in countries where we do not have patent coverage. Further, the laws of some foreign countries may not protect intellectual property rights to the same extent as the

laws of the United States, including the CIS countries, China and India, jurisdictions where the Company is currently expanding its commercialization efforts through distributors. In certain countries, compulsory licensing laws exist that may be used to compel a patent owner to grant licenses to third parties, for reasons such as non-use of the patented subject matter within a certain period of time after patent grant or commercializing in a manner that is cost-prohibitive in the country. In those countries, we may have limited remedies if our patents are infringed or if we are compelled to grant a license for INTERCEPT to a third party, which could materially diminish the value of such patents. This could adversely impact our potential revenue opportunities.

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

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

As our international operations grow, we may be subject to adverse fluctuations in exchange rates between the United States dollar and foreign currencies.

Our international operations are subject to risks typical of an international business, including, among other factors: differing political, economic, and regulatory climates, different tax structures and foreign exchange volatility. We do not currently enter into any hedging contracts to normalize the impact of foreign exchange fluctuations. As a result, our future results could be materially affected by changes in these or other factors.

Product sales of the INTERCEPT blood system are typically invoiced to customers in Euros. In addition, we purchase finished INTERCEPT disposable kits for our platelet and plasma systems and incur certain operating expenses in Euros and other foreign currencies. Our exposure to foreign exchange rate volatility is a direct result of our product sales, cash collection and cash payments for expenses to support our international operations. Foreign exchange rate fluctuations are recorded as a component of other income, net on our consolidated statements of operations. Significant fluctuations in the volatility of

foreign currencies relative to the United States dollar may materially affect our results of operations. In addition, in a period where the U.S. dollar is strengthening/weakening as compared to Euros, our revenues and expenses denominated in Euros are translated into U.S. dollars at a lower/higher value than they would be in an otherwise constant currency exchange rate environment. Currently we do not have a formal hedging program to mitigate the effects of foreign currency volatility.

We currently have a limited trading volume, which results in higher price volatility for, and reduced liquidity of, our common stock.

Our shares of common stock are currently quoted on the Nasdaq Global Market under the symbol CERS . The market for our common stock has been limited due to low trading volume and the small number of brokerage firms acting as market makers. Active trading markets generally result in lower price volatility and more efficient execution of buy and sell orders. The absence of an active trading market increases price volatility and reduces the liquidity of our common stock. As long as this condition continues, the sale of a significant number of shares of common stock at any particular time could be difficult to achieve at the market prices prevailing immediately before such shares are offered, which may limit our ability to effectively raise money. In addition, due to the limitations of our market and the volatility in the market price of our stock, investors may face difficulties in selling shares at attractive prices when they want to sell. As a result of this lack of trading activity, the quoted price for our common stock is not necessarily a reliable indicator of its fair market value.

Provisions of our charter documents, our stockholder rights plan, our compensatory arrangements and Delaware law could make it more

difficult for a third party to acquire us, even if the offer may be considered beneficial by our stockholders.

Provisions of the Delaware General Corporation Law could discourage potential acquisition proposals and could delay, deter or prevent a change in control. The anti-takeover provisions of the Delaware General Corporation Law impose various impediments to the ability of a third party to acquire control of us, even if a change in control would be beneficial to our existing stockholders. In addition, Section 203 of the Delaware General Corporation Law, unless its application has been waived, provides certain default anti-takeover protections in connection with transactions between the company and an interested stockholder of the company. Generally, Section 203 prohibits stockholders who, alone or together with their affiliates and associates, own more than 15% of the subject company from engaging in certain business combinations for a period of three years following the date that the stockholder became an interested stockholder of such subject company without approval of the board or the vote of two-thirds of the shares held by the independent stockholders. Our board of directors has also adopted a stockholder rights plan, or poison pill, which would significantly dilute the ownership of a hostile acquirer. Additionally, provisions of our amended and restated certificate of incorporation and bylaws could deter, delay or prevent a third party from acquiring us, even if doing so would benefit our stockholders, including without limitation, the authority of the board of directors to issue, without stockholder approval, preferred stock with such terms as the board of directors may determine. In addition, our executive employment agreements, change of control severance benefit plan and equity incentive plans and agreements thereunder provide for certain severance benefits in connection with a change of control of us,

including single-trigger equity vesting acceleration benefits with respect to outstanding stock options and single-trigger vesting acceleration benefits with respect to outstanding restricted stock unit awards, which could increase the costs to a third party acquiror and/or deter such third party from acquiring us.

Table of Contents

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
3.1 (1)	Amended and Restated Certificate of Incorporation of Cerus Corporation.
3.2 (1)	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Cerus Corporation.
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Cerus Corporation.
3.4 (1)	Certificate of Designation of Series C Junior Participating Preferred Stock of Cerus Corporation.
3.5 (2)	Amended and Restated Bylaws of Cerus Corporation.
4.1 (3)	Specimen Stock Certificate.
4.2 (4)	Rights Agreement, dated as of November 3, 1999, as amended as of August 6, 2001, between Cerus Corporation and Wells Fargo Bank, N.A. (formerly known as Norwest Bank Minnesota, N.A.).
4.3 (5)	Amendment to Rights Agreement, dated as of October 28, 2009, between Cerus

	Corporation and Wells Fargo Bank, N.A. (which includes the form of Rights Certificate as Exhibit B thereto).
4.4 (6)	Form of 2009 Warrant to Purchase Common Stock.
4.5 (7)	Form of 2010 Warrant to Purchase Common Stock.
10.1 #	Loan and Security Agreement, dated as of June 30, 2014, by and among Cerus Corporation and Oxford Finance LLC, as collateral agent and a lender.
10.2 #	Amended and Restated Supply Agreement, dated April 21, 2014, by and between Cerus Corporation and Purolite Corporation.
31.1	Certification of the Principal Executive Officer of Cerus Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer of Cerus Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 (8)	Certification of the Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

The Registrant has requested confidential treatment for portions of this exhibit.

(1) Incorporated by reference to the like-described exhibit to the Registrant s Quarterly Report on Form 10-Q (File No. 000-21937), for the quarter ended September 30, 2012.

(2) Incorporated by reference to the like-described exhibit to the Registrant s Current Report on Form 8-K (File No. 000-21937), filed with the SEC on June 19, 2008.

(3) Incorporated by reference to the like-described exhibit to the Registrant s Registration Statement on Form S-1 (File No. 333-11341) and amendments thereto.

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52

Table of Contents

(6) Incorporated by reference to the like-described exhibit to the Registrant s Current Report on Form 8-K (File No. 000-21937), filed with the SEC on August 20, 2009.

(7) Incorporated by reference to the like-described exhibit to the Registrant s Current Report on Form 8-K (File No. 000-21937), filed with the SEC on November 12, 2010.

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

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CERUS CORPORATION

Date: August 8, 2014

/s/ Kevin D. Green

Kevin D. Green
Vice President, Finance and Chief Financial Officer (on behalf of registrant and as Principal Financial Officer)

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55

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